BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF HAWAII

ORIGINAL

In the Matter of the Application of)
HAWAIIAN ELECTRIC COMPANY, INC.) DOCKET NO. 2008-0083
For Approval of Rate Increases and)
Revised Rate Schedules and Rules.)

TRANSCRIPT OF PROCEEDINGS

VOLUME IV

Public Utilities Commission hearing held on Thursday, October 29, 2009, commencing at 9 a.m., at 465 South King Street, Honolulu, Hawaii, pursuant to Notice.

REPORTED BY: TRISTAN-JOSEPH, CSR NO. 469
Certified Shorthand Reporter

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P R O C E E D I N G S

CHAIRMAN CALIBOSO: Good morning.

I'd like to call this hearing back to order.

This is the continuation of Docket 2008-0083.

And, again, my name is Carlito Caliboso. I'm the Chairman of the Public Utilities Commission, joined by Commissioner John Cole and Commissioner Leslie Kondo and consultant Scott Hempling.

Can I have the parties appearances for the record, please?

MR. KIKUTA: Good morning, Chairman Caliboso, Commissioner Cole, Commission Kondo, Mr. Hempling.

Peter Kikuta appearing on behalf of Hawaiian Electric Company.

MR. ITOMURA: Good morning, Chair Caliboso, Commissioner Cole, Commissioner, Mr. Hempling.

John Itomura on behalf of the Consumer Advocate.

With me this morning is Mike Brosch, Steve Carver, Dean Nishina, and Cat Awakuni will be joining us later.

MR. MCCORMICK: Good morning, Commissioners, Chairman Caliboso, Mr. Hempling.

This is the Department of Defense represented, again, today by James McCormick and Dr. Kay Davoodi.

CHAIRMAN CALIBOSO: Thank you all.

We're going to start with Panel 9 today.

Do we need to cover anything before we start the panels?

MR. KIKUTA: Nothing from Hawaiian Electric.

MR. ITOMURA: Nothing from the Consumer Advocate.

MR. MCCORMICK: Nothing from the Department of Defense.

CHAIRMAN CALIBOSO: Thank you very much.

So if you could start with the witnesses.

MR. KIKUTA: Sure. Thank you.

For Panel 9, Hawaiian Electric Company has Peter Young, Director of the Pricing Division, Darren Yamamoto, Manager of Customer Service, and Bruce Tamashiro, Director of Corporate and Property Accounting.

They have all been sworn in.

CHAIRMAN CALIBOSO: Thank you.

MR. ITOMURA: For Panel 9, the Consumer Advocate has witness Mike Brosch and witness Steve Carver.

MR. MCCORMICK: The Department of Defense has no witnesses.

CHAIRMAN CALIBOSO: Thank you.

Go ahead, Mr. Hempling.

MR. HEMPLING: Good morning, ladies and gentlemen.

We're going to address the topic of Other Operating Revenues, and I'd like to start with HECO-304. It's test year Other Operating Revenues and, also, if you can pull out HECO

PUC IR 177 and 178.

Is that Mr. Young's area?

MR. KIKUTA: Yes, this is.

MR. HEMPLING: Good morning, Mr. Young.

MR. YOUNG: Good morning, Mr. Hempling.

MR. HEMPLING: Looking at HECO-304, you got a line item called Miscellaneous Other Operating Revenues. Correct?

MR. YOUNG: And you refer to the heading near the top of the exhibit.

MR. HEMPLING: I'm looking over on the left. It's page 1 of 1. You got first non-sell selected utility charges and then series of items under the heading Miscellaneous Other Operating revenue.

MR. YOUNG: Yes, I see that.

MR. HEMPLING: Yeah, I got it okay.

So these items that are listed here, amortization of deferred gains property licenses and leases, parking and carpool revenue, telecom, rent, payment protection, insurance, and others.

Do you see that?

MR. YOUNG: Yes.

MR. HEMPLING: So how did you go about estimating the test year numbers for each of these categories?

MR. YOUNG: The estimates are -- these are summaries of a budget information that I secured from our management accounting group.

MR. HEMPLING: Okay. So you're just the compiler of the data. You're not the person that made the judgements about these numbers?

MR. YOUNG: I did not personally make the budgeted estimates, that's correct.

MR. HEMPLING: Okay. So where in the Company were the judgments made about these estimates, you know, what department, what person?

MR. YOUNG: I indicated, I received or secured these estimates from the management accounting. That's our budget group. My understanding, from them, is that various divisions and departments contribute different estimates to them for these items.

MR. HEMPLING: Okay. Now we asked a question of you in PUC IR 178 asking you to compare this 2009 test year amount of other operating revenues to the amount in HECO's 2009 Form 1.

Do you recall that?

MR. YOUNG: You refer to PUC 178 --

MR. HEMPLING: Yes.

MR. YOUNG: -- the comparison of the test year versus for the 2008 numbers, I believe.

MR. HEMPLING: Correct. Just so I don't cloudy the record, when we talk about HECO's 2009 Form 1, I guess we're talking about the Form 1 that reflects activity in the calendar year 2008. Correct?

MR. YOUNG: Yes, yes, I understand.

MR. HEMPLING: All right. That's the terminology that they used I guess.

So, for purposes of the Form 1, the calendar year 2008 number for other operating revenues 6,528,974. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: And the test amount for other operating revenues for your test year is 4,262,000. Correct?

MR. YOUNG: That's actually not correct.

MR. HEMPLING: Okay. Help me out.

MR. YOUNG: That number which, I believe is --

MR. HEMPLING: I'm sorry. Go ahead, please. Clarify it.

MR. YOUNG: That numbered is referred to our Settlement Agreement but it excludes an amount of 615,000 for gain on sale.

MR. HEMPLING: All right.

MR. YOUNG: But we've tried to re-summarize and present that as an attachment to our response to PUC IR 180, which contrasted with the FERC reported numbers.

MR. HEMPLING: Okay. So the proper comparison is the Form 1 for the 2008 calendar year of 6,528,974 is probably compared to the number in the settlement of 4,877,000?

MR. YOUNG: That's correct. I might further clarify that the formula in 877,000 in the settlement is at proposed rates --

MR. HEMPLING: Right.

MR. YOUNG: -- just to be clear.

MR. HEMPLING: Okay. Now in explaining the differences in your explanation of PUC IR 178 you referred to the fact that, "The estimate for revenue for delinquent payments is about $925,000 lower in the 2009 test year." Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: And why?

Do you think there would be such a decline in delinquent payments revenue?

MR. YOUNG: The estimate of delinquent payments for the test year, as shown, the revised estimate as shown in our response to PUC IR 180 Attachment 1 is $1,226,000.

In the test year that estimate is calculated as a percentage times the electric revenues estimate at proposed rates.

MR. HEMPLING: So it's just a historic percentage times the test year estimate of revenues?

MR. YOUNG: Yes.

MR. HEMPLING: What exactly are delinquent payments?

MR. YOUNG: I'd like to ask Mr. Yamamoto, as the Customer Service Manager, to respond to that.

MR. HEMPLING: Well, just exactly what is this category about?

MR. YAMAMOTO: This category entails the amount that we received from customers whose payments are delinquent, and we charge a 1 percent fee or a 1 percent charge on top of their balance, their bill balance that's delinquent.

MR. HEMPLING: So is this number the sum of the payment plus charge or is it just the charge?

MR. YAMAMOTO: It's just the charge.

MR. HEMPLING: Okay. Just the charge?

MR. YAMAMOTO: Yes.

MR. HEMPLING: What has been the test-year experience?

MR. YAMAMOTO: Actually -- well, the test-year experience is tracking to the estimate that's given that 1,226,000. I'd like to add that, as of September 30th, 2009, year-to-date we are tracking at 915,424.

MR. HEMPLING: Sorry, that number again?

MR. YAMAMOTO: 915,424. That is as of September 30th, 2009, year-to-date.

MR. HEMPLING: So that's consistent with your --

MR. YAMAMOTO: Yes.

MR. HEMPLING: -- test-year expectation?

MR. YAMAMOTO: Yes, it is.

MR. HEMPLING: Now, Mr. Young, back to you.

Concerning back to PUC IR 178 a second explanation for the difference between calendar year 2008 and 2009 that concerns the airport Dispatchable Standby Generation, DSG, project. Correct?

MR. YOUNG: Yeah.

MR. HEMPLING: And you state that in 2008 you reported 625,000 in revenue for that project but our forecast in zero and revenue and expenses for the 2009 test year. Correct?

MR. YOUNG: That's correct. I'm sorry, I think those numbers are reversed. In 2008, we reported 652,000.

MR. HEMPLING: I think I said that, but I'm with you.

MR. YOUNG: Good.

MR. HEMPLING: I hope I said that.

MR. YOUNG: I'm sorry, I thought heard 625,000.

MR. HEMPLING: Oh, I'm sure heard that. I'm sure I made that mistake. I didn't get the years wrong but I got the number wrong. 652,000 in 2008 and zero in 2009 test year --

MR. YOUNG: Yes.

MR. HEMPLING: -- correct?

MR. YOUNG: Correct.

MR. HEMPLING: Okay. And what's the explanation for that change?

MR. YOUNG: The airport standby generation project is -- was not -- we did not budget any expenses or revenues in the test year 2009 and nor did we budget any revenues or expenses for that project in 2008. The revenues are offset by expenses that we incur. We actually bill the project or bill the customer for the expenses that are incurred.

MR. HEMPLING: What's the project?

MR. YOUNG: It's a Standby Generation Project at the airport. It's a -- my understanding is it's a back-up generator that serves the local load there.

MR. HEMPLING: Okay. I'm not understanding. The zero, you're saying there's activity in 2009, but it's not been reported in terms of revenue or expenses but it was recorded in terms of revenue in 2008?

MR. YOUNG: It was recorded to the account in 2008, yes; and, there are offsetting expenses that were recorded, I believe, to account 546, which is described in our response to PUC IR 180.

MR. HEMPLING: That was in 2008 you're referring to?

MR. YOUNG: Yes.

MR. HEMPLING: So, once again, why are you putting on both sides of the ledger for 2009 if there's still activity?

MR. YOUNG: There are -- the amount -- my understanding is the -- there's no dollar amount budgeted for revenues and/or expenses. If there are expenses in 2009, they will be billed and offset by the revenues; but, in the test year estimate, there are no revenues or expenses related to the project included in the test-year estimate.

MR. HEMPLING: Has the Company received any revenue from the project this year?

MR. YOUNG: No, we have not.

MR. HEMPLING: Has it incurred any expenses this year?

MR. YOUNG: I don't know that for certain. My understanding is -- I'm sorry, let me leave it at that. I don't know that.

MR. HEMPLING: What I'm understanding is that if you incur cost you'll bill for them and then you'll have revenues to match the costs assuming the recipient of that invoice pays them.

MR. YOUNG: That is correct.

MR. HEMPLING: And, at that point, you would record the revenue and the costs?

MR. YOUNG: Yes.

MR. HEMPLING: Okay. So we just don't know until the end of the year?

MR. YOUNG: That's correct.

MR. HEMPLING: And that's the way in worked in 2008?

MR. YOUNG: As well.

MR. HEMPLING: Okay. Now we understand why there's a difference between what was recorded on the Form 1 for 2008 versus what is forecasted for the test year for 2009. Now I think we both understand that. Okay. Thank you.

Now concerning the 2008 Form 1, I'm going to get these, which refers to -- excuse me one second.

We can go off the record.

(Discussion off the record.)

MR. HEMPLING: Okay. Back on the record.

Mr. Young?

MR. YOUNG: Yes.

MR. HEMPLING: Concerning the Form 1 for calendar year 2008, can you find page 300 of the FERC Form 1 for calendar year 2008.

MR. YOUNG: I have a form. I just need to confirm that it is page 300.

MR. HEMPLING: The page numbers are in microscopic print at the bottom of the form.

MR. YOUNG: And I believe our copy machine has copied only half of it, but I believe I have the page. Yes.

MR. HEMPLING: Are you familiar with line 19 which is entitled Rank From Electric Property?

CHAIRMAN CALIBOSO: Can you confirm you have the right page, Mr. Young?

MR. YOUNG: I do have the right page. Thank you, Mr. Chairman.

MR. HEMPLING: Yeah. Are you familiar with the line 19 entitled Rank From Electric Property?

MR. YOUNG: Yes.

MR. HEMPLING: And the operating revenues year-to-date, which would be for the full calendar year, they are 1,068,624?

MR. YOUNG: Yes, I see that.

MR. HEMPLING: Yeah. And what items were included in that line item entitled Rent From Electric Property?

Do you know?

MR. YOUNG: If you will indulge me while I flip.

Generally, the broad categories, they include revenues related to our rent of properties, including office buildings, as well as substation sites, they include rent for parking that is paid for by employees and they also include rent for telecom facilities that we see.

MR. HEMPLING: Your response to PUC IR 178 -- you got it?

MR. YOUNG: Yes, I have it.

MR. HEMPLING: -- refers to one of the substation sites being nonutility property with rent from their property properly recorded to their account 418 beginning in 2009.

Do you see that?

MR. YOUNG: Yes, that's in the response to PUC IR 179.

MR. HEMPLING: Okay. I'm sorry, I got you on the wrong one. Okay, in response to 179.

Now nonutility property, that means it's not part of the utility revenue requirement or it is?

MR. YOUNG: It is not and the property is not included in the estimate of rate base.

MR. HEMPLING: So the revenue should not be part of credit to the utility cost of service then?

MR. YOUNG: That is correct.

MR. HEMPLING: It is not rate base. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: That's the way you're treating it.

What goes at the substation site and who's paying what for what benefit, if you know?

MR. YOUNG: I'm not familiar with the location of the site and what goes on there.

MR. HEMPLING: The things somebody learns. I had no idea that you can rent out space on a substation site for somebody.

MR. YOUNG: No, I --

MR. HEMPLING: I assume it's not a camp ground.

MR. YOUNG: We use the term "substation site" rather broadly for many utility sites. It may. I don't if it's actually configured as a substation, either currently or primarily, or it could be used in the future as a substation.

MR. HEMPLING: Okay. Thank you.

Concerning the other operating revenue totals in the FERC Form 1s, my understanding is that for 2000 -- because this is -- wait. For calendar years 2006, 2007, and 2008, the other operating revenue totals were as follows: 2006, 4,027,498. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: 2007, 4,410,392. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: And 2008, 6,528,974. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: Why such a large variation among these numbers? Any thoughts?

MR. YOUNG: Perhaps, if I could refer you to our response to PUC IR 180, Attachment 1.

MR. HEMPLING: Go ahead.

MR. YOUNG: There from the top half of the page we've attempted to separate and identify some of the details related to for line 16, 17, 19, and 21 respectively.

MR. HEMPLING: Do you expect this type of variation in other operating revenue totals to continue for the next two years?

Do you have any thoughts?

MR. YOUNG: It would be difficult to say. I couldn't say what that variation might be. Clearly, if we look at line 16 or at least the total for FERC line 16, between -- if you compare it to 2006 and 2007 versus 2008, in 2008, the number is about a million dollars higher, I'm going to speak in millions rounded, that's about 2.4 million versus the 1.3 million in 2007 and, again, 1.3 million in 2006 largely due to higher values for late payment fees.

MR. HEMPLING: Higher values? What do you mean?

MR. YOUNG: Let me speak to that higher values, meaning higher bills in 2008. In 2008, we reached -- because of fuel oil prices, high fuel oil prices, which we passed through our energy cost adjust clause, bills, where the average rate and therefor bills related to that fuel cost were as high as we've seen them; particularly, in the August, September, and October period and certainly you could surmise that that contributed to higher late payment fees.

MR. HEMPLING: Does the late payment fee compensate companies sufficiently for the time value money plus the cost associated with tracking down delinquent payments? Anybody?

MR. YOUNG: Let me start in and Mr. Yamamoto may follow up. The late payment fee is -- I believe it's in Rule 7 or Rule 8 -- set at 1 percent of the balance.

Certainly, that 1 percent is probably higher than the time value of money or certainly the rate of return that we requested in this case. Whether it is sufficient to cover the other costs that we incur related to that, I don't know.

MR. HEMPLING: Anything else, sir.

MR. YAMAMOTO: At this point, I have nothing to add.

MR. HEMPLING: Okay. Late fees. Late fees are different from this delinquent payment charge, is that right; or, is it the same?

MR. YAMAMOTO: It's the same thing.

MR. HEMPLING: Okay. Do you expect the deteriorating -- that's a tough word.

Do you expect declining economic conditions in the State to affect this item?

MR. YAMAMOTO: Well, I'd say I believe it will effect it. However, as Mr. Young stated with the increase in 2008 of the bills, so this late -- this delinquent payment is a function of that. It's a 1 percent factor charge times the bill. So I would say if the bill amounts are lower then, of course, it will be lower; but, with the declining economy, I do believe we will see it's the same.

MR. HEMPLING: I'm sorry, you will see what?

MR. YAMAMOTO: I'll see this amount sustaining to at least to the 2009 level.

MR. HEMPLING: Well, it works both ways, I guess, if the declining conditions lead to lower sales then that works in one direction but declining conditions lead to people putting off their payment until shutoff is about to arrive but that works in the other direction?

MR. YAMAMOTO: That's correct.

MR. HEMPLING: Have the economic difficulties in the State affected -- Mr. Young or Mr. Yamamoto -- any of the other line items in the other operating revenues category such as the leases, the licensing, telecommunications, and sales to third parties?

MR. YOUNG: I can speak to one item related to leases. In our forecast -- in our test year estimate of rents, we do have a forecast of rent for -- to Chrysler to use a particular parking lot in Eva Leigh. We have -- Chrysler, my understanding is in bankruptcy, and the court -- my understanding is the court terminated the lease effective April 30th.

My understanding, from our land people, is that we did collect the January 2009 rent but -- and we are pursuing but have not collected rent for February, March, and April of 2009 and, of course, the property is now vacant and unleased at this point.

MR. HEMPLING: So that's one example?

MR. YOUNG: Yes.

MR. HEMPLING: Any other examples?

MR. YOUNG: Not that I'm aware.

MR. YAMAMOTO: I'm not aware.

MR. HEMPLING: Excuse me a second.

(Whereupon, Mr. Hempling briefly confers with the Commission.)

CHAIRMAN CALIBOSO: All right. That's all we have for this panel.

Would the parties like to ask questions of each other?

MR. KIKUTA: Hawaiian Electric has no questions.

MR. ITOMURA: The Consumer Advocate has no questions.

MR. MCCORMICK: The Department of Defense has no questions.

CHAIRMAN CALIBROSO: Thank you.

I guess we'll move on to the next panel, Mr. Hempling.

Are there any changes in the panel?

MR. KIKUTA: Yes.

CHAIRMAN CALIBOSO: Mr. Kikuta, witnesses?

MR. KIKUTA: Thank you, Mr. Chairman.

Robert Young will be our panelist for Panel 10. He's, again, the Director of the Pricing Division for Hawaiian Electric; and, we also have Paul Fetherland available as well.

CHAIRMAN CALIBOSO: Thank you.

Mr. Itomura?

MR. ITOMURA: For Panel 10, the Consumer Advocate has Mike Brosch and Steve Carver as witnesses.

CHAIRMAN CALIBOSO: Thank you.

MR. MCCORMICK: The Department of Defense has no additional witnesses.

CHAIRMAN CALIBOSO: Thank you.

Go ahead, Mr. Hempling.

MR. HEMPLING: Thank you, Mr. Chairman.

This panel on rate design, our general goal is to understand a couple of things; one, is why there's such a small level of activity in terms of customer adoption of the existing time-of-use rates; and, secondly, to understand how the Company arrived at its proposals for the new rate structures, both the time-of-use and the more general rate structures; so, that the purpose of these sets of questions is to explore those areas.

So who's going to speak to the time-of-use residential rates, TOU-R rates?

MR. KIKUTA: That'll be Mr. Young.

MR. HEMPLING: Okay. I'm having a sense of deja vu. I know we talked about some of this in a prior panel so.

MR. YOUNG: If it pleases you, Mr. Hempling, we did discuss it in our employee discount --

MR. HEMPLING: Right.

MR. YOUNG: -- discussion --

MR. HEMPLING: Right.

MR. YOUNG: -- two days ago.

MR. HEMPLING: So there might be some overlap, but I'm not doing it now for the purposes of comparison to the employee discount, but for purposes of understanding better how these things were designed.

MR. YOUNG: I understand.

MR. HEMPLING: I apologize for some overlap here.

Now can you go over with us, again, the reasons why you're proposing to change from three periods off-peak, mid-peak, and priority peak to the two periods off-peak and on-peak and I'm referring to time-of-use residential.

What were the reasons?

MR. YOUNG: If you'll indulge me a second.

MR. HEMPLING: Yes, sir.

MR. YOUNG: Thank you. For the time, I'll speak from my testimony for reference that's HECO direct testimony, HECO T-22, page 43.

There were generally two goals considered in the modification of the on-peak, time-of-use rating periods proposed for schedule TOU-R moving from three periods to two.

The proposal, which has an on-peak period of 3 p.m.

to 8 p.m. every day and an off-peak period of 8 p.m. that night to 3 p.m. the following day, that modification still captures the majority of the evening peak hour usage in the on-peak hours while the evening hours -- excuse me -- while the evening hours to the off-peak where people are normally awake in order to allow customers to shift energies to the off-peak hours; and, we believe that revised proposal accomplishes both goals.

MR. HEMPLING: Mr. Young, thank you. It was very clear.

Can I get a better understanding of the process the Company goes through, the process the Company went through, to make this decision.

First of all, what's your role with respect to rate design, your role within the Company?

MR. YOUNG: As the Director of the Pricing Division, we are charged with developing rate design proposals, both for regular rates, as well as optional rates. These -- of course, these proposals are developed internally and do need to be approved at levels above me in the Company.

MR. HEMPLING: Well, I want to understand that better.

So the concepts originate with you or does your department get direction from somewhere else or guidance from someplace else in the Company before you engage in rate design?

MR. YOUNG: Actually, both approaches do occur.

MR. HEMPLING: So in this --

MR. YOUNG: -- in the instance of the revision to the schedule time-of-use rate revisions proposed in the 2009 rate case the design concept came to us.

MR. HEMPLING: From?

MR. YOUNG: From one of the executives in the Company.

MR. HEMPLING: Well, let's get clearer.

Who gave you the dimensions and what kind of instructions did they give you?

MR. YOUNG: The guidance for the revision to the Schedule TOU-R was to create the two-period rate instead of the three-period rate and elongate or stretch the difference in pricing between on-peak and in off-peak hours to encourage customer response.

MR. HEMPLING: Okay. And where did that guidance come from?

MR. YOUNG: That came from -- that came from the senior vice president for our area.

MR. HEMPLING: Who is?

MR. YOUNG: Dr. Carl Staukoff; now retired.

MR. HEMPLING: And did he describe what his goals were in giving you this guidance in any more specific terms than you had just described?

MR. YOUNG: No.

MR. HEMPLING: Anybody else in the Company involved in this decision as to what the rate design should be for TOU-R besides Mr. Staukoff?

MR. YOUNG: Dr. Staukoff, yes.

MR. HEMPLING: Dr. Staukoff.

Anybody else involved in this?

MR. YOUNG: Included in the process where the people in the organization who are between me and Dr. Staukoff that would have included the Manager of Energy Services and the Vice President of Customer Relations -- customer -- I'm uncertain of the title.

MR. HEMPLING: And who are those people?

MR. YOUNG: The Manager of Energy Services is Mr. Alan Hee, who has appeared before you in this hearing.

MR. HEMPLING: Yes. And?

MR. YOUNG: The Vice President is Mr. David Muller.

MR. HEMPLING: Is this the first time you've been involved in adjusting the time-of-use rate schedule?

MR. YOUNG: This -- I would say this is the first time that we revised an existing time-of-use rate or rate proposal; although, I've been involved in designing the time-of-use rate options that we do have.

MR. HEMPLING: All right. And what was the specific reason for going from three to two periods, given by anybody who was involved in the process when they were giving you guidance?

MR. YOUNG: Again, a simpler form rate was believed to be easier to understand, easier to use and easier to access; and, with two periods, it was -- the goal also was to create a larger price differential, which was thought to -- which was anticipated to have a greater response on the part of customers.

MR. HEMPLING: So there was a concern that there was an insufficient response under the pre-existing TOU-R regime?

MR. YOUNG: There was concern that the three-part TOU-R would have -- would not have as great a response as the two-part TOU-R. If I can frame the chronology for you a little bit. We filed this proposed revision to the TOU-R in the 2009 test-year rate case was filed, which was filed in July.

MR. HEMPLING: July of?

MR. YOUNG: I'm sorry, July 3rd, 2008.

MR. HEMPLING: Yep.

MR. YOUNG: And so we were doing this design and development work approximately in the spring of 2008. At that point, in the spring of 2008, our initial time-of-use rate proposal, Schedule TOU-R, which was initially proposed in the

2005 rate case, had not yet received final approval; so, it was not actually in place at the time we were doing this revised design planning.

MR. HEMPLING: The part that the -- the proposal that you're saying is not in place was the three-part, the three-tier -- the three-period proposal?

MR. YOUNG: The three period proposal -- the three period rate that is currently in effect has only been in effect since June 20th, 2008.

MR. HEMPLING: Do you use the word "period" rather than tiers to refer to the times of day?

MR. YOUNG: Yes, I use periods for time of day and tiers are usage related to our Schedule R, if we to get that discussion.

MR. HEMPLING: So tiers and blocks are synonyms for you?

You're talking about --

MR. YOUNG: Yes, yes, thank you.

MR. HEMPLING: -- tiers and blocks are synonyms because they refer to the quantity of kWhs consumed in a months?

MR. YOUNG: Yes.

MR. HEMPLING: And periods refer to the different times of day which have different rates?

MR. YOUNG: Yes.

MR. HEMPLING: Okay. So we'll use the same terms.

MR. YOUNG: Thank you.

MR. HEMPLING: Believe me, thank you.

Now let me get to the point here. Again, what was the reasoning used within the Company -- excuse me.

You gave us the reasons that two periods would be simpler than three and that going from three to two will enable you to have a larger price differential between the two period prices. Correct?

MR. YOUNG: Let me clarify that last point that two periods would be simpler and a larger price differential between the on-peak and off-peak rates was believed to encourage a greater customer response.

MR. HEMPLING: Greater than what?

MR. YOUNG: Greater than a -- a greater response than a three-period, time-of-use rate form would have.

MR. HEMPLING: Okay. So you're referring to -- you're not referring yet to the very tiny number of customers that were participating at all in the time-and-use program?

MR. YOUNG: At the point they were having this discussion, there are time-of-use rate options available.

MR. HEMPLING: So what was, again, the differential that you folks thought would be necessary to produce a response would be the differential that we're now seeing in the proposed TOU-R, which is the differential between the

43.211 cents for kWh for on-peak, and the 22.2113 cents for kWh that we see for the off-peak TOU-R; is that correct?

That's the differential you're referring to --

MR. YOUNG: Yeah, that's the --

MR. HEMPLING: -- sir?

MR. YOUNG: -- differential that is proposed.

In our rate design discussions we did not specify a target differential; although, we were aware that our differential in our proposed -- in our three-part proposed TOU-R rate form was 8.5 cents between the highest rate and the lowest rate, and it was felt that the differential should be significantly greater than that.

MR. HEMPLING: Okay. It was felt by Dr. -- how do pronounce it?

MR. YOUNG: Staukoff.

MR. HEMPLING: Staukoff, that's the person that was having the feeling?

MR. YOUNG: Yes.

MR. HEMPLING: Do you know whether he based that on any study of Hawaii or other customers?

MR. YOUNG: I believe that his -- my understanding is that he had that preference based on some discussions with others outside the Company. I'm sorry, I can't --

MR. HEMPLING: That's all right. I'm sure the lawyers --

MR. YOUNG: -- define those.

MR. HEMPLING: -- are noticing we're into triple hearsay here, but it's an administrative procedure so it's okay.

So the only person the Company who's given serious thought to the magnitude of rate differentials necessary to stimulate customer behavior change is somebody who's retired?

There's nobody else in the Company guiding you these days, Mr. Young, on this subject?

MR. YOUNG: Those of us who are involved in the rate design process continue to work on rate design developments and consult with others in the Company on rate design.

The difficulty with this particular planning effort, if I could call it that, for schedule TOU-R is that it did not have the three-part -- three period -- I'm sorry.

We did not have the three-period optional rate form in place; so, it was difficult to assess its success or degree of success or response, even as we considered a two-period alternate form.

MR. HEMPLING: Your job in the Company does not focus on measuring customer responsiveness to price differences, your job in the Company instead focuses on giving parameters told to you by others, your job is design rates that produce the necessary revenues for the Company, is that correct, or have I understated your role --

MR. YOUNG: That's --

MR. HEMPLING: -- with respect to rate design?

MR. YOUNG: Generally speaking, that's correct in our role for rate design.

MR. HEMPLING: I'm not meaning to lower your status in the Company. I just want to understand what your area of expertise is.

MR. YOUNG: That's correct.

MR. HEMPLING: So who in the Company guides the process now of determining what magnitude price differential will produce a particular customer response?

Who's the person with that responsibility?

MR. YOUNG: I don't believe that there's any individual who is currently -- has that specific responsibility individually. That responsibility area probably falls to me and my manager Mr. Hee.

MR. HEMPLING: By whom do you go to when you want to really understand what works to drive customers' usage in particular directions?

Whom do you rely on?

MR. YOUNG: Right now, if we had or if we had a rate in place or if we were looking at a particular rate, we generally get some data or data analysis from our sister group which is a group responsible for research, but I don't want to overstate their role.

MR. HEMPLING: I don't think you're having that problem. Go ahead, sir. Sorry.

MR. YOUNG: Generally, we're giving basic statistics from them, you know, a number of customers, number of bills, and kWh, and kW over particular time periods, averages, medians.

MR. HEMPLING: So the TOU-R rate schedule has been in effect as of when?

MR. YOUNG: On Oahu, it's been in effect since June 20th of 2008.

MR. HEMPLING: And it's an optional program, opt-in practical?

MR. YOUNG: It's an opt-in program, yes.

MR. HEMPLING: And there are seven customers who've opted in?

MR. YOUNG: Currently, yes.

MR. HEMPLING: Okay. Do you have any idea why such a small number -- or excuse me.

And you've set things up to accommodate a thousand TOU-R customers, correct, that's what the schedule is limited to and that's what the Company is capable of accommodating?

MR. YAMAMOTO: We believe that we're capable of accommodating a thousand customers without a billing system that can do that automatically.

MR. HEMPLING: So are you aware of any conversations in the Company of a head scratching nature as to why there are plans to have a thousand; yet, only seven have opted in?

Any conversations that you're aware of about why?

MR. YOUNG: Actually, no, not that I'm not aware.

MR. HEMPLING: Are you curious about it?

MR. YOUNG: Personally, I thought there might be more, but I'm not surprised that there aren't hundreds of customers.

MR. HEMPLING: Why are you not surprised?

MR. YOUNG: The time-of-use rate or the time-of-use rate options that we proposed and had approved in the 2005 rate case are prices set to present a challenge to customers, and the challenging opportunity, and the opportunity is to lower bills, and the challenge is to change or move energy usage in order to get that bill savings; so, there isn't -- what we've tried to do in the rate design is set rate the level such that customers have to move kWh from a higher price period to a lower price period or even conserve absolutely and reduce their consumption in order to save on their bill.

That's difficult for many customers. For many customers -- okay, now, this is continuing with my understanding, so it's a personal opinion.

Customers are not always aware of their actual level of usage, even what devices or appliances actually use energy more intensively than others; so, there are many challenges for a customer to successfully use these rates; and, quite frankly, electricity bills relative to other activities in the normal day-to-day life may not have a high priority for many customers; but, the time-of-use rate does present an opportunity for those who wish to try and take it up.

MR. HEMPLING: Well, the first thing that has to happen is the customer has to know that this rate differential of 21 cents between the two periods exist. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: And is this opportunity to face this different presented to the customer in their monthly bills?

I can rephrase it.

In the monthly bill that they receive is there a notice that identifies this differential as an option?

MR. YOUNG: Certainly, now that the rate is in place, no, we don't regularly alert customers of that opportunity.

MR. HEMPLING: Well, how are they supposed to know it exist other than having the joy of attending these hearings?

(Laughter.)

MR. YOUNG: We do have HECO.com website which discusses energy opportunities, including rates for customers, and they can find the rates there. I do believe that --

MR. HEMPLING: Hold on one second.

How many customers do you think went out of their way to go to your website to find out if you had this rate schedule?

MR. YOUNG: I don't know.

MR. HEMPLING: What would you think, a small or large number?

MR. YOUNG: If less than a thousand is small, it would be small.

MR. HEMPLING: Okay. I interrupted you.

What else would you say were the other ways in which a customer could find out that this 21 cent per kWh rate differential existed?

How would they learn that besides going to the website?

MR. YOUNG: I'm sorry. The existing differential is 8.5 cents.

MR. HEMPLING: I'm sorry.

MR. YOUNG: The 21 cents is the proposed rate.

MR. HEMPLING: Pardon me. Thank you.

MR. YOUNG: But, in any case, we also have customers who call our phone center; and, when they inquire about what they can do about their bill, they are advised of that --

MR. HEMPLING: They are?

MR. YOUNG: -- option.

MR. HEMPLING: They're to go to the --

MR. YOUNG: I can't --

MR. HEMPLING: -- web -- I assume they're told to go to the website?

MR. YOUNG: Well, they're told about the rate now. That's my understanding is that they were told about the rate, whether that's a consistent presentation that's made by all of our phone center reps, I'm not going to represent to you that I know that.

MR. HEMPLING: Anything else?

Any other ways in which a customer would become informed of the -- sorry -- the existing 8-cent differential?

MR. YOUNG: They don't come to mind right now.

MR. HEMPLING: Well, with this type of outreach, it's impressive you got seven people that opted, wouldn't you say?

MR. YOUNG: I would have thought that we'd have more than seven.

MR. HEMPLING: Why would you think you'd have more than seven if the only ways that somebody would learn about it would be by going on the website or calling into the phone center?

Why would you think you'd get more than seven?

MR. YOUNG: That's just a personal assessment. If we had had 260,000 customers, I would have thought we had some interest, even if it is motivated by or self-driven by individual consumers.

MR. HEMPLING: Okay. Are you aware of plans within the Company to modify the methods of notifying customers of the TOU-R rate differential upon the implementation of the proposed TOU-R schedule?

MR. YOUNG: We have not made plans for that at this time.

MR. HEMPLING: Would you personally have heard about them if there were such plans?

MR. YOUNG: I believe I would.

MR. HEMPLING: Are you familiar with the schedule for the CIS system completion?

CIS stands For Customer Information Service.

MR. YOUNG: No, I'm not.

MR. HEMPLING: So you don't know whether the CIS or some other system would be completed -- excuse me.

We've already said that the 1,000 residential customer limit proposed --

MR. YOUNG: Actually, that limit is existing in the -- exist in the existing schedule TOU-R --

MR. HEMPLING: Thank you. And we're also --

MR. YOUNG: -- and the proposal repeats that limit.

MR. HEMPLING: Okay. And that limit is related to the nonexistence of a new CIS system; is that correct?

MR. YOUNG: That's correct.

MR. HEMPLING: And we don't know when a new CIS that could accommodate a larger number will be in place?

MR. YOUNG: I am not aware of that.

MR. HEMPLING: Would you be aware if anybody were?

MR. YOUNG: I wouldn't be the first. Maybe I would at some point.

MR. HEMPLING: Well, they'll come to you, right, because it would accommodate a larger -- it would accommodate a larger number of customers who could use the rate design, which comes under your domain, so they would come to you. Correct?

MR. YOUNG: They would, I believe -- yes, they would advise me that we would be able to lift the meter limit requirement as we had represented we would once the CIS system was in place.

MR. HEMPLING: Do you know what the new number with respect to eligibility for the TOU-R rates will be under the new CIS?

Do you know what the new CIS system will accommodate in terms of the maximum number of residential customers?

MR. YOUNG: I'm not aware that there will be a maximum. Our understanding -- and this goes back to the design in the 2005 case, that when a new CIS system will be in place, it would be able to accommodate all customers who chose to be on that rate option.

MR. HEMPLING: So your understanding is that when the new CIS system is in place you would lift the 1,000 -- you would propose to lift the 1,000 customer limit in schedule TOU-R?

MR. YOUNG: That's correct.

MR. HEMPLING: Do you know with respect to the seven -- do you know whether anybody in the Company has studied differences in load profile between those customers who have opted in TOU-R and the customer group that takes under Schedule R?

Do you know if anybody has looked at customer differences?

MR. YOUNG: My understanding is that no one has studied those differences.

MR. HEMPLING: Either in terms of peak demand differences or aggregate monthly consumption differences?

MR. YOUNG: No.

MR. HEMPLING: Do you know whether anybody in the Company has seen whether customer behavior among the seven has changed as a result of their opting into TOU-R?

MR. YOUNG: We have not studied that.

MR. HEMPLING: So you know for sure that you have not -- it's not that you're not aware of any studies, you're sure there have not been?

MR. YOUNG: I'm fairly certain that we have not studied that.

MR. HEMPLING: Can we turn to -- thank you for your responses to this, Mr. Young.

Can we discuss now TOU-C and TOU-G rates?

COMMISSIONER KONDO: Mr. Hempling, can I ask some questions about TOU-R?

MR. HEMPLING: Yes, sir.

COMMISSIONER KONDO: I'm going to follow up with some answers that you made to Mr. Hempling that I'm not sure I fully understand.

You had said that the CIS -- it's your understanding that once the Company has the CIS that it will be able to accommodate all residential ratepayers that want to participate under the time of these rates; is that correct?

Do I understand that correctly?

MR. YOUNG: Commissioner Kondo, I didn't say that. I could clarify and be more specific, if I may.

When I made that statement, what I mean is that we will be able to bill automatically all customers who want to sign up on the time-of-use rate option.

COMMISSIONER KONDO: Is there a different meter required or is it the same meter as long as you now have a more advanced CIS type of system?

MR. YOUNG: The CIS system or at least of the capabilities that I refer to in the CIS system are just the billing portion of the system. Time-of-use data still needs to be acquired at the customer location and transferred into the billing system; so, it does -- if the customer is not yet a time-of-use rate customer, it does require a different meter and a different tracking of data.

COMMISSIONER KONDO: What is the Company's expectation as to the participation in the current TOU-R program?

Assuming that it continues the current TOU-R schedule that continues, what does the Company anticipate in terms of participation?

I know you have seven now, but does the Company have some expectation as to the number of participants?

MR. YOUNG: As this is an operation rate, the Company has not taken it upon itself to forecast that participation.

COMMISSIONER KONDO: Would that answer be the same with respect to proposed TOU-R rate?

MR. YOUNG: That's correct.

COMMISSIONER KONDO: I'm not sure you answered this question to Mr. Hempling, but does the Company know how much energy the average Schedule R uses or consumes during the peak period?

And I know that the Company had provided an IR response. I think it's PUC IR 151 and there was a chart attached to that, and I wasn't sure if that was supposed to represent that information.

MR. YOUNG: Thank you, Commissioner Kondo. Let me --

COMMISSIONER KONDO: And I'm referring --

MR. YOUNG: -- reply -- go ahead.

COMMISSIONER KONDO: I was going to say I'm referring to Attachment 2 and it's actually PUC IR 104.

MR. YOUNG: I sorry, PUC IR?

COMMISSIONER KONDO: No, I take that back. It's 151.

MR. YOUNG: Okay. There are a couple of things that we put together to put together a response to PUC IR 151, and let me describe it.

First, we referred to the average residential customers usage in 2008, 554-kilowatt hours. We've discussed that in relation to the employee discount issue a couple of days ago.

In terms of trying to identify how or estimate how much of that usage is in the proposed on-peak period in this proposed TOU-R rate in test year 2009, this 3 p.m. to 8 p.m. period every day, we went back to -- to respond to this IR, we went back to our class load study data and our sample of Schedule R customers in that 2003 study and did a proportional calculation of the kWh in those hours for those sample customers, and that's the 26.6 percent from the class load study data. We're saying based on that data, about 26.6 percent of energy is used in this 3 p.m. to 8 p.m. period.

COMMISSIONER KONDO: Do you expect that percentage to have changed today versus the study that was performed in 2003 in terms of percentage of energy the residential customer uses during peak versus the off-peak?

MR. YOUNG: I couldn't estimate that for you. We do have a class load study that was, I believe, fielded in 2008 or in 2009, and we are in the process of completing a new class load study; so, we would be able, at that point, to look at that data and see, in fact, if that is different for residential and really all other customers.

COMMISSIONER KONDO: Of the 26.6 percent of residential kWh that this study had estimated was consumed during the on-peaks periods, does the Company know the percentage of that amount that is discretionary energy use?

And what I mean by that is things that turn on and off versus things that you have to leave on 24/7 like you have a refrigerator, for instance?

MR. YOUNG: My understanding is that the class load study measures usage just by time interval and not its source; so, no now we're not aware of how much of that use might be discretionary as you described.

COMMISSIONER KONDO: From that answer, I take it you're not able to tell me what the expected residential savings would be either on the current TOU-R rate or the propose TOU-R rate if a residential users shifts his use to the off-peak period from the on-peak period because you don't know what the discretionary mode is; is that correct?

MR. YOUNG: We would be able to -- for a given set of estimates, if we were to establish or assume a starting point for a residential customer of how much, how many kWh they had in an non-peak period and in an off-peak period before modifying behavior and then if we had an estimate of how much they moved, we would be able to estimate how much they save, that may not be what you're asking.

COMMISSIONER KONDO: It's not but I appreciate the challenge in trying to answer the question.

I have a question about the period in which it's proposed the on-peak rate start, 3 p.m. When I look at load profile it seems like 3 p.m. is not the beginning of the peak.

Could you comment as to why the Company proposes to the peak rate at 3 p.m. versus a later time, for instance, like 5 p.m?

MR. YOUNG: I think the choice of 3 p.m. to 8 p.m., again, as we described in our direct testimony, was to try and capture and designate as on-peak hours, hours that included the period of highest use. One of the challenges, of course, is if there are -- if you start later, the on-peak period might be -- might extend to long through an evening period and make it less accessible and less useful.

Let's use the example of we have proposed a five-hour period from 3 p.m. to 8 p.m. If we kept the same five-hour, on-peak period but instead started it at 5 p.m. and terminated it at 10 p.m., we believe the usability of that rate option might be diminished. It would require, for example, for homes that don't have air conditioning usage so their primary electric intensity use is hot water, in order to manage usage from on-peak to the off-peak period, it means deferring, perhaps, hot water usage, which includes baths for the kids, cooking, washing of dishes, washing laundry to outside of the on-peak period we believe that it might be much more difficult and much more challenging for customers to try and do that after 10 o'clock at night.

So the existing three-period, time-of-use rate option has a priority peak period from 5 p.m. to 9 p.m. of which has been, I might add, a common, historic priority peak period that we've used in our Rider M containment option for over 20 years, but we felt that even 9 p.m. was too late and that's why we tried to bring that on-peak period back to 8 o'clock.

The other thing I wanted to add is the other challenges if the on-peak period is shortened even further than five hours, then the pricing has to be different -- the differential between the on-peak and off-peak has to be narrowed because it becomes too advantageous.

We want to get customers to change behavior. We don't want them to be able to save and take this rate option without changing behavior and still be able to save. We want to avoid a -- we call it a "free rider challenge" where you don't get the behavior changed but the customers get the reward. We're trying to avoid that.

COMMISSIONER KONDO: So you're saying that if you shorten the period from 5 p.m. to 8 p.m., three hours instead of the current proposed five hours, that will not result in the same type of behavioral change that the Company is looking to achieve?

MR. YOUNG: What I'm suggesting is that we're not sure that we'll get the same behavioral change, but the pricing differential between the on-peak and the off-peak would have to be narrowed; and, our assumption, at least in this proposal, is that a wider differential between on-peak and off-peak encourages the change; so, a shorter on-peak period would be a narrower differential between off-peak and on-peak energy rates may prove less attractive or may cause customers to be less responsive to the rate option.

COMMISSIONER KONDO: Talking about prices, can you explain to me why the Company chose to design the time-of-use rates where the on-peak rate is so much higher than the normal Schedule R rate for that period and the incentive or the off-peak use is actually just a fraction, 4 cents, less than the current Schedule R rates, versus some type of reverse type of scenario where you truly have a carrot, meaning a much significantly lower rate during the off-peak period to incentivize customers to use electricity during the off-peak period rather than penalizing them for using it during the on-peak period?

Can you explain why it was chosen to do, what I would call the penalty way, rather than the incentive way?

MR. YOUNG: This relates to my previous response and let me try to expand further.

The challenge with an optional rate that's very attractive is that, again, you don't want the rate to be so good that all customers will sign up for that rate, not change any behaviors, and still get a savings that becomes a revenue change and, of course, doesn't get you any changes in behavior that you might seek from an option rate.

So it's a balancing of -- it's a balancing of creating an opportunity but not creating so rich an opportunity that customers benefit without changing any behaviors --

COMMISSIONER KONDO: The opposite --

MR. YOUNG: -- and we would be -- the balancing is when you shorten -- and this was the goal here -- shorten the on-peak hours in order to try and create a wider opportunity around the o'clock for off-peak hours, it requires that kind of -- if I can, asymmetric kind of pricing, whereas if you had more on-peak hours and less off-peak hours, the pricing relationship would be different; but, at the same time, as we've just discussed, the opportunity to shift from on-peak to off-peak might be more difficulty and more challenging.

MR. HEMPLING: May I have one second, Commissioner?

One of the constraints you have is when the dust clears the rates in effect times the kWhs is used as to sum up to revenue the requirement allocated to the class, correct, and that's one of the constraints in setting the rates?

MR. YOUNG: That's one of the constraints in setting the regular rates. I would point out in this test year, as we've described in our response to IR -- PUC IR 150, we don't estimate participation from our option time-of-use rates that doesn't already exist.

MR. HEMPLING: So you're not allocating costs to this TOU-R class separately from the costs you allocated to the rest of the residential rates?

MR. YOUNG: That's right.

MR. HEMPLING: Sorry.

COMMISSIONER KONDO: I just asked the question, Mr. Young, because it seems like you developed or created a system where you have very little participation and, frankly, if I look at the incentive versus the penalty, I'm not sure that I would opt in; and, I think that you want to incentivize people to opt in.

And so I'm asking questions about the thought that went into it, and I understand your response, you don't want some free riders, but, it seems, to me, the program that you're asking the Commission to continue is not one that there's enough of a carrot out there, you know, it's really one where there's a big penalty out there; so, why would I opt in if the big incentive is don't get whacked.

And so, I guess, I'm just struggling to understand why the rates that are currently set that it's a program that had value because it seems like you only have seven after a year or see of participation; and, like I said, if I look at the program, I'm not sure I would want the risk of having a huge penalty, and I know there's some energy users that I cannot not use during a peak period.

Anyway, no, I don't have a question. I just wanted to say that.

CHAIRMAN CALIBOSO: Can I follow up?

COMMISSIONER KONDO: Sure.

CHAIRMAN CALIBOSO: Mr. Young, and this is still a pilot program, right, it's been limited to a thousand?

MR. YOUNG: The schedule TOU-R is actually -- our understanding is it's an approved regular rate option. It does in the tariff have a cap, a participation cap.

CHAIRMAN CALIBOSO: And the participation cap is?

MR. YOUNG: Is 1,000 units.

CHAIRMAN CALIBOSO: One-thousand.

MR. YOUNG: One-thousand.

CHAIRMAN CALIBOSO: So what is your risk of having too many people sign up?

MR. YOUNG: At this point, it would be a thousand customers. If, in fact, the rate were such that it were too attractive and would get customers who would sign up just to save money without changing behaviors.

CHAIRMAN CALIBOSO: Right. But are we trying to, at this point, at least, get a little more data as to what customer behavior would be given the proposed rates that you are proposing here, the time-of-use rates, given that we have very little experience so far. And I think I hear one of your concerns about perhaps making it more attractive to get more people to sign up is that you may have too many people sign up and, you know, perhaps they're going -- you might get free riders, but you don't know that until you get people to sign up. It seems, though, like you have a cap on the number of participants, number one, already built in to protect against any major adverse consequences on revenues but, at the same time, you're designing the program where it might not -- you might not get hardly any participants.

MR. YOUNG: Certainly, we would be open to taking a certain approach for this proposed rate where if the rate were approved in this case by this Commission, we would take -- we could take a more aggressive approach in disseminating information, making customers aware of the rate, and we could, in fact, assess that participation with -- assess that participation in this optional rate with the intended result of making refinements to that optional rate in a future rate case or even before that.

It's difficult, at this point, to see how customers assess, as Commissioner Kondo has pointed out, there's a large price differential for consumption on the on-peak rate because it's for a part small of the day; admittedly, it's certainly an important part of the day, but it's a small part of the day and that has to be weighed against the much wider time opportunity to use energy in the off-peak period; admittedly, it is smaller discount, and, you're right, it's not clear how customers will respond to that and certainly we're presenting that opportunity.

CHAIRMAN CALIBOSO: Thank you.

COMMISSIONER KONDO: Just to follow up on what you just said. And I understand that when Mr. Hempling's comment was that when the dust settles, you got to make x amount of money.

But isn't the challenge here the fact that there is the cap, and I understand your concern about free riders, but we got free riders in every program that the Company implements; but, if the program is more universal, then, yeah, the free riders might be a small percentage of the participants, but, hopefully, you get a large group of folks that get in there and are incentivized to shift their use of energy which thereby lowers the peak and shifts the Company's peak or shaves the Company's peak.

Isn't that the issue here as to why this is the program that you to have because of the cap?

You have to have the penalty stick rather than the incentive carrot?

MR. YOUNG: The cap or at least the cap is an administrative or at least originates with our proposal in the test year 2005 rate case, where the three-part rate form, which is currently in effect, it was approved, and it has a smaller pricing differential between priority off-peak and off-peak, but that limit was put in place because of our expected inability to bill customers outside of our regular billing system.

COMMISSIONER KONDO: But doesn't that inability exists today still?

MR. YOUNG: Yes, it does.

COMMISSIONER KONDO: So the cap would still -- I mean, there's -- well, just strike that.

Anyway, thank you.

MR. YOUNG: Yes, the cap --

CHAIRMAN CALIBOSO: I think Commissioner Cole has a question.

COMMISSIONER COLE: I just wanted to check with the Consumer Advocate and get their views on this type of thing. I know time-of-use rates have been in place in other parts of the country and whether there's a value to doing it this way or it's an optional thing and the participation might be next to nothing or very small.

MR. BROSCH: Sure, thank you.

I've actually had a dialogue similar to this with Mr. Young through several rate cases now trying to understand why the time-of-use rates are structured the way they are and what has been done to study alternative forms of the rate. The constraint that I understand exist is that the technology is not there yet to accommodate either a heavily promoted rate with systematically testing or a non-optional rate form.

So I have to say, from the Consumer Advocate's perspective, we continue to look at the time-of-use rate proposals as a continuing pilot; one, that at the appropriate time, could be expanded and more systematically analyzed hopefully with a CIS in place and perhaps AMI in place such that the administrative burden of doing that is easily overcome by the perceived benefits of doing that.

There has been, across the country, a clammer toward more intelligent networks and advanced metering infrastructure; and, usually, as part of plans to deploy that technology, plans are made to more systematically study the customer applications, the rate applications, that might be enabled by that technology, including not only load shaping but efficiency promoting kinds of programs.

And, for instance, the Commonwealth of Edison in Chicago just received commissioner approval for an array of 24 alternative rate forms as part of their AMI pilot, where they're going to for about 140,000 customers, select by sample groups of customers and assign them a form of rate and a form of technology and then review after educating customers on how to take advantage of their assigned technology and pricing, a review after the fact what responses can be observed with the idea that then you can do some tailoring of the rate to achieve the desired goals.

COMMISSIONER COLE: I guess with the current eco design, do you think they're going to get many more takers?

And, I guess, as a follow-up to that, if we were to sweeten the incentive side of it and soften the penalty side for use in off-peak, I was just thinking with the decoupling proposal before us with the RBA and the true-up make the utility poll if, you know, they were losing money in that regard?

MR. BROSCH: There's several questions there. Let me take them one at a time.

If they were RBA accounting and the TOU rate design was changed to be a stronger incentive; and, by doing so, likely to produce lower revenues than the Company would receive under this proposal, the RBA accounting would make the Company hold for those revenue losses because the actual build revenues when compared to the target revenues would spread and later recovered.

As to the policy issues of whether you want to do that and how you might implement that, first, I would caution you that one of the concerns the Consumer Advocate had after visiting with the HECO folks about what it takes to bill each of these TOU customers manually, is that I would not want to encourage that to be done before CIS is capable of automating that process for fear that the cost would rapidly swamp to the benefits you're after.

COMMISSIONER COLE: I would agree I wouldn't do anything with the cap unless the CIS cap was in place but thank you.

MR. HEMPLING: May I follow-up?

CHAIRMAN CALIBOSO: Go ahead, Mr. Hempling. Go ahead.

MR. HEMPLING: Concerning Commission Kondo's comment on the attractiveness of penalty versus carrot, Mr. Brosch, as I understand it, someone who opts in to the TOU-R proposal subjects himself to a very high rate in peak hours, but if he modifies his behavior to a certain extent, he comes out ahead. Correct?

MR. BROSCH: That's my understanding. I understand, from the analysis Mr. Young was describing, the average customer would need to move 55-kilowatt hours per month from peak to non-peak periods. I think that was the thrust of his testimony.

MR. HEMPLING: That's what he says at response to PUC IR 151, correct, Mr. Young?

MR. YOUNG: That's correct. And that's for a customer that has that particular usage and that particular mix of on-peak and off-peak kilowatt hours before any behavioral modification.

MR. HEMPLING: Specifically, so the record is clear, it's a residential customer who uses 654 kWhs that has distributed 26.6 percent on-peak and 73.4 percent off-peak based on schedule TOU-R hours would have to move 55 kWh from on-peak to off-peak in order to break even as compared to billing the Schedule R rates, correct, Mr. Young?

MR. YOUNG: That's correct. And that's based on the TOU-R rates and the Schedule R rates that are proposed in direct testimony.

MR. HEMPLING: Okay. I just want to understand this penalty concept for a minute, Mr. Brosch.

It's not unusual for a customer of a product to opt for a pricing regime where under certain circumstances they could end up paying more but if they behave in a particular way they could end up paying less. An example would be somebody choosing a high deductible for an auto insurance or a health insurance program. Correct?

MR. BROSCH: That's right. When you provide choices for customers you enable them to make a determination as to whether they might be better off under one approach than another.

MR. HEMPLING: So somebody who opts into the TOU-R program is not opting into a penalty, they're opting into an opportunity to save money or lose money depending on whether they behave in a particular manner, correct, Mr. Brosch?

MR. BROSCH: That's right. And using the estimates Mr. Young described, there would be a penalty to that customer absent some reaction and shifting of load towards the off-peak period.

MR. HEMPLING: Now, Mr. Young, I gather this calculation you did concerning the customer with 654 kWhs distributed 26-6 percent on-peak and 73.4 percent off-peak, I'm sure not even you knows what your personal figures are for these three features. Right?

MR. YOUNG: No, I'm not aware of my on-peak and off-peak usage.

MR. HEMPLING: So getting back to Commissioner Kondo's point, if I'm understanding this right, one of the challenges here -- well, first of all, this is a -- for every customer, regardless of how they distribute currently between on-peak and off-peak, there are some breakeven point for them?

MR. YOUNG: That's correct.

MR. HEMPLING: So one of the challenges that anybody would have, even with all of the advertising that was necessary to get this into the consciousness of every person like posters on the wall at their offices, which they couldn't escape, announcing a program, somehow they would still have to learn this information, the four figures: Their usage, their on-peak percentage, their off-peak percentage, which would be the 100 percent less, the on-peak; and, then somebody would have to calculate for them the amount of movement, they would have to know all of that first to know whether they were going to be better off under the program, in theory, and then they would have to figure out how they would move those kWhs about thinking about their usage and the equipment that it comes from, they would have to do all of that to know whether it made sense to make the move, is that correct, if they were assuming to act rationally?

MR. YOUNG: That is correct in order for them to make that assessment before choosing to go on the program, yes.

MR. HEMPLING: I guess now nobody in the room is surprised why there's only seven customers doing TOU-R.

That complexity of the decision-making has to have some implications for the number of customers who are taking this. Correct?

MR. YOUNG: I would -- certainly, that places additional challenges on potential customers.

MR. HEMPLING: Does the Company -- are you aware of any conversation within the Company about how that particular type of education would take place, not merely the education about the existence of the program, but the education about learning how one's usage currently exists and would have to change in order to make one better off?

Are you aware of any thoughts in the Company about how to do that type of education?

MR. YOUNG: We haven't had that discussion within the Company for our customers, and this is not -- this is not limited to just our time-of-use. This is not limited just to our time-of-use rate option but for other customers on optional rates, whether it be our time-of-use, TOU-C or even our Rider M or our Rider T, customers would make assessments or representations of what they think they can do to change their behavior; but, very often, there's a disconnect between what they understand and what the reality is; so, in fact, what happens is the bill or the monthly bill results, the actual performance becomes the key to whether a customer says I've gotten what I wanted to achieve, or I still need to do more to achieve what I want to achieve, or this is not something I can do. I need to opt back out.

(Whereupon, Mr. Hempling brief confers with the Commission.)

CHAIRMAN CALIBOSO: Just one follow up to Mr. Hempling's request for information that you need to make decision.

Would that be possible and how much would that cost?

MR. YOUNG: Right now, the meter -- the normal meter that provides Schedule R service does not have -- does not collect time-of-use data for customers; so, in order to provide that information to all customers, it would be very expensive. We'd have to have different meters. We would have to have a way to acquire that data from the meter and organize it and communicate it to customers.

CHAIRMAN CALIBOSO: So when somebody signs up for this, you have to switch over the meters?

MR. YAMAMOTO: Yes.

CHAIRMAN CALIBOSO: So you're saying that before that switch overs then they don't have that data?

MR. YOUNG: They don't have that data.

CHAIRMAN CALIBOSO: In other words, it's impractical to calculate that or get that data manually, is that what you're saying?

MR. YOUNG: We're unable to get that data without a different meter at the customer's location, service location.

CHAIRMAN CALIBOSO: But once the meter is in, that data is available?

MR. YOUNG: Yes.

CHAIRMAN CALIBOSO: Thank you.

MR. HEMPLING: Does the technology exist, it simply doesn't exist at the Company or doesn't exist anywhere for the type of meter that you and the Chairman were discussing?

MR. YOUNG: The technology, it exists. It's just that currently that's not the default meter that's placed at residences.

MR. HEMPLING: So it's within -- costs aside, costs of installation and costs of buying the meter aside, it's within the Company's grasp in the not remote future to create a situation where you can inform each customer that if they were to shift X kWhs to Y period, they could save money under a particular rate design, that potentiality exists in technology today?

MR. YOUNG: My understanding is that that potentially exists, although, I'm -- the particular details of the technology and the timing or availability to HECO have to be answered by someone yes.

MR. HEMPLING: Two questions, Mr. Brosch, before we take a break, and thanks for you stamina.

The Commonwealth Edison program that you described --

MR. BROSCH: Yes.

MR. HEMPLING: -- you referred to Commonwealth Edison "selecting" groups.

Do you remember that?

MR. BROSCH: Yes.

MR. HEMPLING: Optional or not optional for the selected customers?

MR. BROSCH: As I understand the approach, there is an AMI pilot in one of Com Ed's operating divisions that has been authorized, where most of these customers would reside, called the Maywood operating division. Then there is a smaller pilot location in downtown Chicago to get the highrise operating environment and information about that.

Com Ed would then select customers to participate in the customer application pilot and send a survey to that customer offering a 15-dollar-bill credit for customers who fill out and return the survey indicating their willingness to participate and providing some information about the end uses of energy in their home; and, then with those return surveys, the customer could elect to opt out affirmatively with their return.

So nothing is mandated and customers are incented to reply. And then the customer, as I understand it, is assigned a rate type and a technology type, and the rate types include the default base rate, declining block rates of critical peak rates, the whole array of alternatives with four variations of each rate, summer, non-summer, and whether they're electric heating or non-heating.

MR. HEMPLING: I got what I asked.

It's voluntarily but it's opted out?

MR. BROSCH: Yes.

MR. HEMPLING: I'd like to turn to -- after the break, a few questions on TOU-C and TOU-G that I think we'll be going over, Mr. Young.

MR. YOUNG: Thank you.

CHAIRMAN CALIBOSO: Let's take our 15-minute break and come back about five to eleven.

We are in recess.

(Whereupon, at 10:41 a.m., a recess was taken, and the proceedings resumed at 10:57 a.m., this same day.)

CHAIRMAN CALIBOSO: Good morning again.

Let's reconvene this hearing.

Mr. Hempling, you can continue.

MR. HEMPLING: Mr. Brosch, we're focusing on the high price that the TOU-R customer pays during on-peak periods.

Has the Consumer Advocate studied whether there's a possibility of Company overrecovery of its settlement revenue requirement as a result of that high price?

MR. BROSCH: No. The Consumer Advocate was aware that there had been very little customer acceptance or utilization of the time-of-use rates and asked of HECO whether there was any effort to project revenue impacts from customer adoption; and, upon learning that there was not, we did not embark on any independent analysis of those potentially impacts.

MR. HEMPLING: Now Mr. Young, sorry to go backwards but, perhaps, this question applies to all the rate designs where there was an on-peak and off-peak differential.

I'm understanding these rate differentials to be unconnected to the costs of service that exists during those on-peak and off-peak periods but, instead, the rate differential is designed to create movement to induce movement for the customer from one theory to another; is that correct?

MR. YOUNG: That is correct.

MR. HEMPLING: Okay. Let me ask a few questions about the TOU-C and TOU-G rates.

I'm going to try not to get mixed up because I know there were merges and changes in the various customers.

The TOU-G rate, that's a proposed rate; is that correct?

MR. YOUNG: That is correct, both the TOU-G and the TOU-J rates, in this case, are proposed rates. What we attempted to do is break out the existing TOU-C rate, which has a non-demanded and a demand option into simply two separate rates -- two separate rate options, I should say.

MR. HEMPLING: And the TOU-G rate has a priority peak, a mid-peak, and an off-peak set of periods available?

MR. YOUNG: Yes. Those are the time periods available or proposed for TOU-G and TOU-J are the same time periods that exist in the existing TOU-C.

MR. HEMPLING: And the TOU-C existing has had those three periods since?

MR. YOUNG: The three -- the TOU-C rate became effective in June 2008, upon approval in the HECO test year 2005 rate case; but, let me add that the definitions of the time periods of the priority peak period -- well, let me -- let me go back the other way.

The definitions of on-peak period 7 a.m. to 9 p.m.

and off-peak period from 9 p.m. to the following to 7 a.m. the following day, have existed in existing rate options, and I refer to Rider T and Schedule U, for many years.

In addition, the definition of the priority peak period from 5 p.m. to 9 p.m. weekdays has existed in our Rider M rate option for many years. What we've done in our rate proposal is adopt those time periods, and so we've defined a mid-peak period as simply the on-peak period exclusive of the priority peak period; so, the mid-peak period is 7 a.m. to 5 p.m. on weekdays and 7 a.m. to 9 p.m. on Saturdays and Sundays, so the time-of-use periods that we have used in the TOU-C have actually been in other rate options available to Schedule J and Schedule P commercial customers for many years.

MR. HEMPLING: Could you do a new analysis of what the hours should be for these three periods when you designed the new TOU-G and TOU-J?

MR. YOUNG: No, we did not. The effort in proposing these rate options in the test year 2005 was an attempt to extend a time-of-use rate opportunity to all customers, the Rider T and the Schedule U were available to existing the band customers, customers who had loads greater than 25 kW, the proposed and ultimately approved Schedule TOU-R and Schedule TOU-C in the 2005 rate case, extended the time-of-use rate opportunity to residential customers and to small commercial customers, those with loads less than 25 kW.

MR. HEMPLING: So if I ask you how you chose the hours for the three periods, priority peak, mid-peak, and off-peak, the answer we chose what we had before we just combined them?

MR. YOUNG: Yes.

MR. HEMPLING: So if the Commission were looking at it to understand what analysis went into the decisions about these periods, would the answer be no analysis or some analysis or no relevant analysis, because whatever analysis was conducted was conducted years ago, what would the answer be?

MR. YOUNG: The answer would be there was no new analysis. We adopted the existing periods that were available to larger commercial customers and extended those and made them available to smaller customers.

MR. HEMPLING: So do we have any idea whether these are the right periods of time for this particular set of customers in terms of their usage patterns?

Do we have any idea in terms of the current usage patterns?

MR. YOUNG: We believe that that is still representative of current usage patterns, and we can see that in the load profile that, I believe, we provided in response to either PUC IR 104 or CIR 104.

MR. HEMPLING: So you did look at a load profile. You just looked at as post hoc justification rather than as part of the design process for the new rate schedules?

MR. YOUNG: We are aware that our load profile has generally remained the same over a number of years where we have an evening peak that is captured by the five-to-nine priority peak period; and, in the low period, in the late night and early morning, that is captured by the existing off-peak period from 9 p.m. to 7 a.m. the following day.

MR. HEMPLING: And the weekday versus weekend extension is there was no reason to change that either based on your understanding of load patterns?

MR. YOUNG: That's right. There is a -- if you were to additionally provide, in the same form as a response to IR 104 of a weekday pattern versus a weekend pattern, you would see the same shape on the weekend, but it would be at a lower level; and, that's primarily due TO different levels of business; particularly, of government operations being closed on the weekends.

MR. HEMPLING: Now you responded in an PUC IR 147 that concerned Schedule TOU-C.

There was only one customer, a customer who began service in 2008?

MR. YOUNG: That is correct.

MR. HEMPLING: Any thoughts on why there was only one subscriber to TOU-C?

MR. YOUNG: We don't have any data or market intelligence on why that is.

MR. HEMPLING: Do you know why that one customer shows it?

MR. YOUNG: The customer that had been selected actually has -- without identifying the customer -- has a number of meters on that property, and the customer was making a concerted effort to examine rate options for all of their services on their property, and they found that the pattern of service at that particular meter could be -- they could successfully achieve a savings if they were on the TOU-C non-demand rate option.

MR. HEMPLING: So I gather from your last question that this is not a customer with an unusual load pattern, it's a customer with an unusual level of alertness with respect to energy costs and the opportunity to save?

MR. YOUNG: It's probably closer to the latter, yes, than the former.

MR. HEMPLING: You said that TOU-C customer had a number of meters on the property.

Are they modern meters or the same meters that other similar commercial customers have?

MR. YOUNG: They are not -- there are meters that do not collect time-of-use data.

MR. HEMPLING: So this customer is an example of what can happen if there's alertness on the part of the customer and attention to their electricity costs?

MR. YOUNG: In this particular case, yes.

MR. HEMPLING: Does the Company have any prediction as to how many customers will take service under TOU-G or TOU-J? Any prediction?

MR. YOUNG: We don't make a -- we do not make a prediction and we haven't made an estimate of participation for the test year as we indicated in our response to PUC IR 150.

MR. HEMPLING: So the proposed revenue requirement for the commercial classes assumes no change in customer behavior relative to the era when TOU-C and TOU-J did not exist?

MR. YOUNG: We would characterize it as there is no -- at least for the test year, we do not have an estimate of revenue savings from participation in those rates.

And, if I could go back to your last question, to Mr. Brosch, regarding the risk of overrecovery of revenue requirements, although we are, from a data perspective, unable to help customers in advance of their participation on these optional rates as to whether they will save or not, we are able to communicate to customers who do participate in these rates.

On a monthly basis we are able to indicate to them whether they're saving or not; so, we're providing information right away so they can make an assessment as to whether they need to stay on or opt out.

From that perspective, I would suggest that the risk of overrecovery of revenue requirements is nil or small successful participation by such optical customers would, of course, would result in reduced revenues.

MR. HEMPLING: Concerning the customer groups who are eligible for TOU-G and TOU-J, does the Company have the capacity for the ability to analyze usage and send such customers a letter saying, given your characteristics, if you do X and Y in terms of behavioral change, then you can save money under one of our new TOU rates?

Does the Company have that capability?

MR. YOUNG: The Company has the capability to do that analysis and we do, on occasion, do that analysis upon request by the customer, but let me qualify that. That also presumes that time-of-use data, metered or usage data, is available for that customer; and, generally, if you have a standard meter, that data isn't available.

MR. HEMPLING: Is not available?

MR. YOUNG: Is not available.

MR. HEMPLING: Okay. Help me understand that.

MR. YOUNG: So how does that come about?

Generally, for our larger customers, we have an account manager group that basically services, I want to say, our largest customers our Schedule P customers, and let me describe a process where this assessment may come about.

If the customer is interested, if that kind of customer is interested in rate options, then that would include time-of-use rate options, but it could also include our curtailment rider, Rider M; and, if we did not have time-of-use information on that customer, on occasion, if the customer request, and I don't know what determines the successful customer request; but, upon customer request, we have had in the past a placement of a recorder, a data recorder at the customer's site, and that recorder will collect time-of-use data information for that customer.

We will take that read -- the pricing division will take that time-of-use information and make billing calculations on the different rate options to assess where a customer's bill falls on their regular rate and where it might fall on a particular rate option so that the account manager can have a discussion with the customer as to whether they could be successful or not taking up a rate option for what they might have to do to be successful on that rate option.

MR. HEMPLING: Where is the account manager group in terms of the Company's organization, under what major division?

MR. YOUNG: The Account Manager Group used to be in the Energy Services department until March. I'm not sure what group it is in now. It's in a group where -- it's in a different group.

MR. HEMPLING: Maybe Mr. Kikuta can answer this question.

Is that group ultimately under Mr. Alm's domain or under some other top executive?

MR. YOUNG: I can answer that. That group does fall under Mr. Alm.

MR. HEMPLING: Could Mr. Alm be prepared tomorrow to discuss some issues relating the account managers, if the Chairman allows that line of questions?

MR. KIKUTA: Certainly.

MR. HEMPLING: Now do you know anything about the daily -- the job responsibilities of the Account Manager Group?

Is it simply to make customers happy or is it to maximize revenue for the Company from these customers?

MR. YOUNG: I'm not aware of the specific individual responsibilities of the Account Manager Group.

MR. HEMPLING: I mean, if an account manager comes in and says I found a way to reduce the Company's revenue from this customer by 30 percent, is that likely to affect this person's promotion chances?

Do we know?

MR. YOUNG: I don't know, personally. We have -- let me go further.

As a result of, in the past, and that would be years back. If the account manager found a rate option that a customer could successfully undertake, that would save the customer on their electric bill based on behavioral changes, that those customers would be signed up on whatever rate options were appropriate for them, so we have -- we did -- we have had in the past instances where customers have taken on rate options that have saved them money based on Company analysis.

MR. HEMPLING: Right. But we don't know whether the account manager's job responsibilities explicitly include -- find the way to minimize the revenue that the Company gets from this customer group, we don't know if that's in the account manager's job responsibilities, do we, at least sitting here today?

MR. YOUNG: I don't know if that's explicitly in their job responsibilities. Certainly, when we have worked with account managers in the past, that has been a feature of their relationship with their customers.

MR. HEMPLING: All right. Well, maybe Mr. Alm can give us more explicit answers tomorrow.

So the process that you described, Mr. Young, by which an account manager -- excuse me -- by which the Company could go about informing each customer eligible for TOU-G or TOU-J as to their options that sounded fairly involved. It involves special meters, it involves calculations, it involves a number of discussions.

Did I understand you correctly?

MR. YOUNG: Yes, you did. And my example would be account managers, I attempted to illustrate that the fact, while we do undertake that activity, it's limited to -- our proactive approach to that is limited to larger -- the largest customers of our system.

MR. HEMPLING: Largest meaning over what level of demand and consumption, roughly?

MR. YOUNG: Largest in terms of customers who are Schedule PS or PP or PT, so it would be customers who are above 300 kW.

MR. HEMPLING: So the proposed TOU-G and TOU-J do not have limits on the number of customers eligible. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: But there is some limit beyond which the Company would have difficulty processing and servicing these customers, correct, under its present infrastructure?

MR. YOUNG: Certainly, there would be.

MR. HEMPLING: I've somehow found my way back to Schedule R and Schedule TOU-R.

Mr. Young, do you have available your response to PUC IR 140 and 143?

Are there any questions about TOU-G and TOU-J?

CHAIRMAN CALIBOSO: No.

MR. YOUNG: Those were PUC IRs 140 and 143.

MR. HEMPLING: Yes.

MR. YOUNG: I have those.

MR. HEMPLING: You're discussing here the reasons for the specific blocks, that is the block of zero to 350 kWh from 350 to 1200 kWh and above 1,200 kWh, correct, that's what you're discussing here in 143?

MR. YOUNG: Yes, that's correct.

MR. HEMPLING: Yeah. So some questions in this area.

It says that the, "The first tier -- meaning the tier from zero to 3350 kWh -- "was set to provide the lowest energy rate per a base kWh usage level. The first tier was set to include about one-quarter of all residential customer bills and about one-half of all residential kWh."

Do you see that?

MR. YOUNG: Yes.

MR. HEMPLING: And then the second tier was set to capture -- I guess the second tier was set so that the sum of the first tier and the second tier would capture 90 percent of all residential kWh billed and either the first or second tier rate. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: And then the third tier was set to capture just the remaining 10 percent. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: So I'm not meaning to be argumentative, what was the reason for these numbers of capturing one-quarter versus 90 percent? Anything?

MR. YOUNG: As we described in the response, this form or structure for inclining block rates was first proposed or advanced in the HELCO 2006 test year rate case; and, we felt it was appropriate to advance also in the HECO 2007 and MECO 2007 rate cases, that the -- let me speak about the highest tier.

It was -- we -- 10 percent was thought to be an appropriate amount to have, or in terms of the exposure for the highest usage customers were thought to be an appropriate amount to have fallen to a third tier; and, we did focus in, in the HELCO case on trying to capture about 25 percent of the residential bills, and it happened to be nice that about half of the kWh are associated with that tier cutoff level.

MR. HEMPLING: Right. I don't want us to go around in circles. You used the adjective "appropriate." I'm assuming you didn't choose it because it was going to be inappropriate.

I'm asking what was the reason and what was special about 10 percent other than the fact that it has a zero in the number?

Why not 30 percent?

Why not a larger number to hit with the highest tier rate?

MR. YOUNG: Because this was a new proposed rate form, we felt it was -- we didn't want to expose a lot of kWh to that highest rate --

MR. HEMPLING: Why not?

MR. YOUNG: -- and 10 percent was just felt to be an appropriate number.

MR. HEMPLING: Well, the purpose of the higher rate is to discourage large quantities of consumption, right, that's what you wanted to do?

MR. YOUNG: Well, if we go back to the response to IR 140, when we proposed the rate in the HELCO case, 2006 case, and the same logic would apply in the HECO 2007 case, MECO 2007 case, as well as this present case, part of the reasons for having the design were to manage the bill impact of the proposed revenue requirement increase on the smallest uses of the system, as well as assigning more of the costs to those who used more kWh, as well as creating a price increase --

MR. HEMPLING: Well, I'm having trouble --

MR. YOUNG: -- and --

MR. HEMPLING: Sorry.

MR. YOUNG: -- in order to do that, setting the price for the lowest tier quantity becomes very important and then it's setting the other -- setting the -- with the assumption of the kWh that falls in the highest tier, to a certain extent that price needed to be set just to meet revenue requirement target for that rate plan.

MR. HEMPLING: Let me see if I can follow your reasoning and maybe it's not much more to it than this, but that's what I want to get to the bottom of.

This is not cost base, right, because the 1,200, kWh cost the same and it's the same time of day, the same generation, the 1,200 kWh cost the same for the Company to produce as the 350 of kWh. Correct?

MR. YOUNG: That's correct.

MR. HEMPLING: So this setting up with the various tiers, as you've just pointed out, have more to do with distributing cost among usage groups. Correct?

MR. YOUNG: It has to do -- yes, with managing the bill impact to the smallest usage groups and other the usage groups.

MR. HEMPLING: That's what I want to understand, and tell me if I'm misinterpreting you, but it sounds like you started with a goal of having the small users -- I think you used the word "protected" from large rates.

Is that how you started the analysis by saying there's a group of small users and we want them to have a particular experience; and, then that became a constraint that led you to choose the levels for the next two tiers?

Is that the sequence of analysis, Mr. Young; or, was it more arbitrary than that?

MR. YOUNG: Given the revenue requirement that we were trying to price out with prices set for the Schedule R, we did -- there's an average revenue requirement increase assigned to a schedule -- to the Schedule R in our rate case proposals.

MR. HEMPLING: An average rate of increase assigned to Schedule R --

MR. YOUNG: Right.

MR. HEMPLING: -- for example, in this case, it's approximately 5.2 percent. Correct?

MR. YOUNG: In direct testimony, yes.

MR. HEMPLING: All right. So that's what you start with, with --

MR. YOUNG: Right.

MR. HEMPLING: -- that decision. Right?

MR. YOUNG: And given that allocation or proposed allocation to Schedule R, when we did this initially it was a much higher percentage increase, of course, in the HELCO 2006 rate case. I believe it was 9 or 10 percent.

MR. HEMPLING: I'm sorry?

MR. YOUNG: When we first proposed this inclining block rate form, which was in the HELCO test year 2006 rate case --

MR. HEMPLING: And by "form," you're referring --

MR. YOUNG: I'm --

MR. HEMPLING: -- to the one-quarter at the bottom end and the 90 percent at the top end?

MR. YOUNG: Yes --

MR. HEMPLING: Okay.

MR. YOUNG: -- the inclining block rate form.

When it was first proposed in the HELCO rate case, I believe our proposed average increase for Schedule R in that case was closer to the order of 9 or 10 percent.

The concept then was that that's a significant increase to assign to Schedule R customers and we -- our goal was to make that somehow distribute the increase of that. The increase would fall less heavily on those who used less electricity or, at least, really for all customers who used that level of electricity have that impact be smaller and then go and tier that up and still recover that average revenue increase but have it staggered in a different form.

MR. HEMPLING: So it sounds like it was social policy, as opposed to a pricing policy, that led to the selection of these cutoff boundaries among the three tiers. It's my words, not yours. It didn't relate to energy conservation.

It related to the impact to disposable incomes?

MR. YOUNG: It related to impact on the smallest users of the CIS system. It does -- because it creates different prices for different usage levels, it does, as a consequence, send some pricing signal for energy efficiency.

MR. HEMPLING: Right. But that pricing signal is an incident of the decision to protect or to protect the small usage customers. It wasn't the purpose of the design. It was an outcome of the design; is that correct?

MR. YOUNG: They kind of come together.

MR. HEMPLING: It wasn't the purpose of the design to induce energy conservation. It was an outcome of the design; is that correct?

MR. YOUNG: I would say that as part of the design but not the primary part.

MR. HEMPLING: Okay. Mr. Brosch -- well, now back to you, Mr. Young.

So if the upper tier was captured at 30 percent rather than 10 percent of the usage, there would be even a more favorable treatment of the lowest 25 percent users, correct -- or the lowest 25 percent of the residential customer usage. Correct?

MR. YOUNG: If you were to -- if the inclining -- if the design of the usage levels of the inclining blocks were different and are in different proportions, there are a number of pricing combinations that will become available that you could choose to design different impacts to different groups.

MR. HEMPLING: Right. But what I'm saying is if it's just the arithmetic, if the 90 percent became -- excuse me, if the 10 percent that were under the third tier became 30 percent, that would be more people paying the highest rate and if you kept the other tiers, the first quarter would then pay a lower rate, the same revenue --

MR. YOUNG: For the save revenue requirement, yes.

MR. HEMPLING: All right. Mr. Brosch, I think, this is new to the Commissioners, this thinking. I could be wrong on that.

But are you aware of how companies elsewhere go about selecting the number of tiers in an inclining box context and the reasoning that they used to get there?

And I'm not meaning to be critical through these questions of the companies, I'm just curious as to how people go about doing it.

Any thoughts?

Is this the way it's usually done?

MR. BROSCH: Well, let me say first that there are own a few jurisdictions I'm aware of that are practicing this kind of rate structure for Schedule R.

MR. HEMPLING: "This kind" meaning inclining blocks.

MR. BROSCH: In an inclining block structure, yeah. I mean, it's growing in popularity as an impetus toward promoting conservation, but if you look, for instance, to California, I think there's a history of this structure of rates that has been colored by some legislative decisions that have been made over the years, some social policy in intentionally constraining price pressure on low volume users and even medium volume users during the big run up in energy costs for the market problems in 2001, 2002 timeframe.

There are a lot of social policy considerations that play into this and a fair amount of judgment. Here, in Hawaii, the HELCO case that Mr. Young spoke of, was, I think, the first encounter with this rate structure.

MR. HEMPLING: Yes, excuse me. I just wonder if you heard my question.

I'm asking whether you're familiar with other modes of reasoning, besides the ones articulated by Mr. Young, for how a company would go about establishing the differences among the points in usage in which we create the boundaries.

Are you familiar with other modes of reasoning?

MR. BROSCH: I would say generally the modes of reasoning would have to do with social policy and managing customer impacts.

MR. HEMPLING: Have you ever heard of any other type of reasoning used besides that one?

MR. BROSCH: Ever is a long time. Nothing comes to mind. I would, I guess, go back to a question you asked Mr. Young about cost base and say that generally this rate form is not cost base. We have a customer charge that recovers a fraction of total fixed cost, and those fixed cost remain and are not avoidable with a low volume customer; so, cost base rates would be either flat or more likely a declining block.

MR. HEMPLING: Mr. Brosch, what would be the -- what would be the pros and cons of having a -- well, yeah, what would be the pros and cons of having a larger percentage of the residential population in the highest tier?

Any thoughts?

MR. BROSCH: Well, if I think first of the desire to reward conservation behavior, I would think that a more steeply inclining lock-rate structure or more exposure to high rates at higher levels of usage would amplify that incentive and the paybacks toward a customer's investment in conservation.

The con that comes with that is the intended amplification of variability and revenues to the utility if customers successfully do that; in other words; revenue stability tends to suffer when more revenue is at risk in the higher blocks of the rate; and, of course --

MR. HEMPLING: And, therefore -- I'm sorry, go ahead.

MR. BROSCH: -- with decoupling that that effect is captured and the Company is made whole.

MR. HEMPLING: The effect disappears?

MR. BROSCH: It disappears in that the Company is made whole and other customers make up for that revenue shortfall on a per-kilowatt-hour basis.

Beyond that, I think you would have to be attentive to initial customer impacts. I think you would have the risk of potentially shocking customers that have high usage with far above average revenue increases, and there would be some risks that you're doing that in a way that doesn't necessarily punish them for lack of conservation; but, instead, reasons why their energy usage is high that they may not be able to control.

MR. HEMPLING: Can I stop you there for a minute? So may I?

So what you're referring to is that for a number of customers, as Commissioner Kondo pointed out, some aspects of their consumption are discretionary but some aspects are not unless they're going to move their houses and change their whole lifestyle?

MR. BROSCH: That's correct. When you talk about a customer's responsiveness to price signals, the inherent assumption is they have some choices that are not too terribly painful to make and some customers have more choices than others in that regard.

MR. HEMPLING: So in designing the placement of the boundaries between usage tiers, does it make sense to study the extent of discretion that customers have?

MR. BROSCH: Possibly, although I'm not sure there's an efficient way to do that. What I had in mind, in looking at this rate structure, is to move gradually and see what kinds of customer responsiveness we might see through time without aggravating customer effects; or, said differently, while maintaining some gradualism across the entire spectrum of individual customer usage customer patterns.

MR. HEMPLING: But assuming the Company had a way to find typical neighborhoods, typical types of housing stock and typical arrays of equipment within the home, assuming the Company could develop a picture of customer discretion then that information would inform the Company as to the level of acceptability that a larger block would attain. Right?

MR. BROSCH: There may be some intelligence game by studying customer end-use patterns and a saturation of air conditioning and water-heating devices of different fuel types. I don't know whether at the end of that you would have sufficient information to more intelligently design tiers or not.

MR. HEMPLING: When you say you don't know, you mean -- what you mean is you don't know, you're not meaning to say you don't think it's a good idea, but you're trying to be polite in how you're the answering question?

MR. BROSCH: Well, perhaps. I think --

MR. HEMPLING: What does "perhaps" mean?

MR. BROSCH: That would be a fairly intensive study and may yield results that are meaningful for customers in one group or area and not in other areas, and I have in mind there are variables beyond the end use choices that customers make such as vocation.

MR. HEMPLING: What does vocation have to do with it?

MR. BROSCH: If a given customer has more exposure to whether in a need for air condition use in another, for example.

MR. HEMPLING: Thank you.

I just have, Mr. Young, one question on Schedule J, and I think I'm finished with the time with the rate design questions.

Are you familiar with Schedule J, Mr. Young?

MR. YOUNG: Yes.

MR. HEMPLING: Wait a minute. You don't have to pull that out.

I don't have that -- relax, I don't have that question.

MR. YOUNG: Okay.

COMMISSIONER KONDO: Can I ask one question, Mr. Young?

Now Mr. Brosch --

MR. YOUNG: Yes.

COMMISSIONER KONDO: -- had noted the difficulty for the Company, given its present infrastructure to monitor the time-of-use or the time-of-use usage, for a lack of a better term, of customers, could you explain the process that the Company goes through currently to manually bill these customers, so I have a better understanding of that burden.

MR. YOUNG: Let me -- I think I have a description that I can summarize for you --

COMMISSIONER KONDO: All right.

MR. YOUNG: -- for a residential customer on this time-of-use rate option.

When -- let me see if I can summarize this, and if there are gaps, I'll answer your further questions.

When a residential customer elects time-of-use rate option, we go out and we, the Company puts, a different meter at the customer location and that meter has different registers it collects, the meter is actually programmed to capture the time-of-use periods per the tariff that's in place.

The meter reader has to -- that the billing of the meter, the read date, has to go to that meter and via a handheld device collect the data from the different registers so that we know what the time-of-use data is for each customer; and, we actually upload that data into a data system -- this is not the billing system -- and we take that data out of that system and it allows us to format that data so that we can use it in a spreadsheet, and we check the readings and usage for the different periods and make sure that internally we've collected data from all the usage periods and the total.

So we do a quality control check to make sure that the sum of the usage and all the individual periods equals the total, and we do a -- it's not a manual calculation, it's a spreadsheet calculation of the bill.

So we calculate the bill per the TOU rates. That gets calculated by one person, checked by another person, that information is forwarded to the customer service people.

Now what we're trying to do is create that bill for the customers, so we have to take that billing information that's been calculated on the spreadsheet, and it is manually uploaded into the billing system, our existing access billing system; and, we from the spreadsheet, somebody manually enters or populates billing values, so that a customer bill is generated in the form that those of you who get an electric bill that you see.

We also include this spreadsheet calculations so that the bill doesn't automatically get processed through our, you know, the computer makes a bill on it automatically and gets mailed out. They do have to set up that bill so that it's manually pulled so that we can add this second detail sheet, which will communicate information to the customer; quite frankly, where they're using the electricity and whether they're saving or not. That second sheet is added to the billing sheet manually and then it's put in the mail to the customer.

I'm sorry, a long explanation but that's --

COMMISSIONER KONDO: No. Thank you.

MR. YOUNG: -- part of our process.

COMMISSIONER KONDO: Thank you very much.

CHAIRMAN CALIBOSO: Sorry, I've been sitting here and I'm thinking what things I need to ask you.

Is it true that in some areas Hawaiian Electric is installing more advanced typed meters for your developments?

I believe Mr. Fetherland can speak to that program.

Thank you.

Is he here?

MR. YOUNG: Yeah.

CHAIRMAN CALIBOSO: Have you been sworn in, sir?

MR. FETHERLAND: No.

CHAIRMAN CALIBOSO: Do you solemnly swear or affirm that the testimony you're about to give will be the truth, the whole truth and nothing but the truth.

MR. FETHERLAND: I do.

CHAIRMAN CALIBOSO: Thank you.

MR. FETHERLAND: Okay. So you're interested in whether we've installed advance meters and where?

CHAIRMAN CALIBOSO: Yes, yes. Even though they may not have signed up for time-of-use rate program.

MR. FETHERLAND: And the number, you know, it sort of changes, but we have about 8,700 meters. There's about 3,000 meters out in an Ocean Point Development out in Eva Beach. We got about 1,100 meters up in, sort of, like Tantalus and Palolo Valley area; and, so, sort of, roughly, about 4,000 to 4,200 meters that are actually capturing monthly billing register reads, and we're billing, sort of, through an automated process into our CIS.

CHAIRMAN CALIBOSO: And so for those types of customers that have those meters at their homes, you are able to get advance data for them to help them decide whether or not they should opted for the time-of-use rates that are proposed for?

MR. FETHERLAND: Yeah, there's more than enough data, I think, in those cases. I think the limitation comes at the back end like, sort of, Peter talked about the -- handling, you know, through that spread process. That's for the bottleneck, but getting the data through like this AMI type process is very straightforward.

CHAIRMAN CALIBOSO: In those cases, does someone need to go to the house and use a handheld or is that through the lines or is wireless layers or some other technology?

MR. FETHERLAND: It's going through radio frequency communications, so basically wireless.

CHAIRMAN CALIBOSO: Okay. Thank you.

Maybe this goes more for Mr. Young.

Thinking about the design of this program in general; and, again it's a voluntary program.

All right. So you have to understand, I guess, that anyone who signs up for this program would only sign up for it if they're pretty sure that they wouldn't be incurring usage during the peak hours would they be able to reduce their usage during the peak hours and take advantage of the nonpeak hours. Right?

MR. YOUNG: Yes, that their -- for those who sign up, that we expect that's their anticipation, yes.

CHAIRMAN CALIBOSO: Yeah. And then you have to pretty much anticipate that nobody is going to sign up if they think they'll have to use a whole lot of energy during the peak areas otherwise they just would wouldn't sign up. Correct?

MR. YOUNG: Generally, that's our expectation.

CHAIRMAN CALIBOSO: And because it's not a mandatory program, you're not going to capture those you cannot move and will have to, you know, by default, pay the higher rates?

MR. YOUNG: That's correct.

CHAIRMAN CALIBOSO: So I think in looking at it from the big picture viewpoint, it seems like no matter what happens, how many customers you get to sign up for this, will have to be at a net loss for the Company, right, because only people who are going to save money are going to sign up for this?

MR. YOUNG: That would be our expectation, yes.

CHAIRMAN CALIBOSO: And there's no countervailing offsetting increase in revenues from those who don't sign up for it, at least not our plan in this -- the way the rates are structured now. Right?

MR. YOUNG: Not in current rates and, of course, we, as we indicated in our response to PUC IR 150, we did not estimate a revenue loss from successful participation in these options of, as Mr. Brosch, has suggested a revenue balancing account could pick up that shortfall, if one was approved.

CHAIRMAN CALIBOSO: So, generally speaking, at any time a voluntary program would probably work that way, right, you would have to anticipate a net loss for the Company?

MR. YOUNG: Right. And we've seen that in the past with our older voluntary rates with our Rider M and our Rider T.

CHAIRMAN CALIBOSO: Is that -- sorry.

THE WITNESS: We provided for revenue losses toward estimated revenue loss -- well, I shouldn't say revenue losses. We provided for the savings that successful participation in those options have. We have provided for their savings in the revenue -- I'm sorry, in the rate design to maintain the revenue requirement.

CHAIRMAN CALIBOSO: So, I'm sorry, you have an accounting for it?

MR. YOUNG: For existing optional rate customers and those would be just Rider M and Rider G customers.

CHAIRMAN CALIBOSO: So --

MR. YOUNG: In the future, the parallel would be in a future rate case if we have no participation in these other optional rates, TOU-R TOU-G, TOU-J, where we could successfully estimate of their savings, we might be able to include that in the revenue requirement and adjust proposed rates to reflect that.

CHAIRMAN CALIBOSO: So maybe -- and this is a question -- is it -- for it to do any good would time-of-use rates have to be a mandatory program?

And I'll open it up to the Consumer Advocate as well, and this is probably for a future case, of course, but for it to do any real good, does it have to be a mandatory program?

MR. BROSCH: If you want to get past the adverse selection, kind of, issue you spoke up where only rational customers would opt in and reduce revenues, then, yes, at some point, to capture the winners and the losers and balance out the revenue effects, you would eventually consider moving to mandatory time-of-use rate search.

MR. YOUNG: We would -- a mandatory time-of-use regime would certainly require us to design time-of-use rates that are more closely related to costs for those designated time periods. The other part I would -- or comment I would have related to mandatory time-of-use rates is that, absent data on all customers, as far as when actual usage occurs, we would be making under mandatory time-of-use rates, we'd be making estimates of where a customers use revenue and that --

MR. HEMPLING: I'm sorry, what?

MR. YOUNG: We'd be making -- thank you -- we'd be making estimates of when customers would use energy under mandatory time-of-use rates in order to set rates to get to achieve the revenue requirement, that would be a much larger challenge than it is now. I would suggest that I have no doubt that we would be -- set rates that would generate too much or too little revenue, and sales decoupling, in my opinion would be a necessary thing that we would have to accommodate -- I'm sorry -- be approved along with mandatory time-of-use rates. They would have to both be in place in order to be successful.

CHAIRMAN CALIBOSO: And what else would we need to get to that point because with this 1,000 limit, 1,000 customer limit, we're really not going to achieve the goal of shifting the peak enough in order to avoid the need to bill to that higher peak, bill generation to the higher peak?

What else do we need to get to that point?

The infrastructure, of course.

What else?

MR. YOUNG: When you refer to the infrastructure, and I don't mean to put words in your mouth; but, certainly, that that means an ability to measure time-of-use information at the customer's point of view and being able to take that information and transfer it to a billing system that can automatically bill that efficiently, then those are necessary components of implementing a mandatory time-of-use rates, it's additional to having an appropriate rate design.

CHAIRMAN CALIBROSO: What about getting the necessary data to get to that point?

Would this initial program help or this smaller program help?

MR. YOUNG: I think this smaller program -- well, to the extent that we have had data from this program, and I'm sure we will have some data, it will help us be sensitive or be aware of how customers or certain customers who elect to participate may respond to certain price differentials and that will be certainly a part of any time-of-use rate design whether it's optional or mandatory.

CHAIRMAN CALIBOSO: It sounds like the data would probably be skewed to those who can actually move their usage, right, because those are the only people that are going to sign up?

MR. YOUNG: Data from an optional program, yes. I would suggest that even if we were to move to a mandatory time-of-use pricing regime, it would be a transition certainly where we would have to assess how customers are using the electricity and how their bills are effected, and we probably be moving towards almost new equilibriums as we assess the data and see how customers perform; and, that's also another reason why you'd have to have sales decoupling to go along with that so you can be confident the revenue was appropriate as you move there, but, certainly, we, by no means, will we think that we can get to the right mandatory time-of-use rates and the signals that it certainly would be a process.

CHAIRMAN CALIBOSO: Is the Company collecting data from the advance meters that are already installed for this purpose or would that be possible?

MR. FETHERLAND: Well, I mean, it's been sort of an evolution, but, I think, the general answer is, yes. We just -- you know, we don't have a back end data management system right; but, if we really wanted to do it, yes, we could come up with a plan to do that.

CHAIRMAN CALIBOSO: Does that depend on the CIS or is that something else?

MR. FETHERLAND: No, it doesn't depend on the CIS. This type of volume of 10,000 meters we can probably handle it, you know, from a data perspective, get into the database and stuff like that, that's really straightforward.

CHAIRMAN CALIBOSO: What about the population makeup of those customers with the smart meters, do you think it's diverse enough to represent the residential customers base?

MR. FETHERLAND: Probably, not. I mean, you know we have -- we specifically picked like Ocean Point because it was in a continuous number of routes. You know, so that's, kind of, good if you're looking for air conditioning impacts.

We have the thousand meters up in a more of mountainous valley areas; but, you know, really from a statistical standpoint, it's better than -- you know, it's not bad, but a statistician would -- they would not even agree to do something like that; so, I would say, from a rigorous standpoint, no, it wouldn't be.

CHAIRMAN CALIBOSO: That's probably the best we can get --

MR. FETHERLAND: Yes --

CHAIRMAN CALIBOSO: -- right now?

MR. FETHERLAND: -- right now.

CHAIRMAN CALIBOSO: Does the program now, Mr. Young, does that provide for reporting or tracking of data with the customers you do get in this and maybe with the additional meters that are available for a little bit bigger population?

Would that be possible?

MR. YOUNG: Certainly, we could collect and report on the data that we do have.

CHAIRMAN CALIBOSO: All right. Thank you.

Mr. Hempling, do you have anything else on this?

MR. HEMPLING: Just one question, I guess, sir.

When you refer to the back-end data management process where you said the bottleneck is, is it personnel, is it technology, what is it about?

MR. FETHERLAND: What I was referring to is really the CIS. You know we're planning this for the MI product to put in what's called a "metered data management system," and sorts of a big deal. It's not something that you just, you know, go to CostCo and slop it in so --

MR. HEMPLING: That's something you want?

MR. FETHERLAND: That you don't go down to Costco and sort of slop it in.

So in terms of what the Chairman was talking in getting data and organizing it and analyzing it, that's a totally different matter than billing. So it's certainly easier to handle raw data and put it in a form that you can get some (inaudible) out of; but, what I was talking about was getting data that actually goes in and day out because of billing, which is CIS.

MR. HEMPLING: Well, is there also a personal matter in terms of people who process it and the Company has sufficient people on staff to do that at higher levels than now?

MR. FETHERLAND: The billing aspect that, I think, that Peter had talked about is that, yeah, that is a personnel bottleneck. As far as in my area in terms of data accounting, I'm pretty confident we can get the raw data and analyze it; so, there is no bottleneck getting and looking at the data.

MR. HEMPLING: So there is a personnel bottleneck somewhere?

MR. FETHERLAND: It depends on what -- if you're looking at -- looking -- if you're looking at the data for the purposes of what the Chairman talked about, I think there is sufficient resources. We're a little constrained, I would say, in the market research area. That person has a lot of things to do, so there may be a bottleneck there; but, certainly, on the CIS side, like Peter said, there is a bottleneck.

MR. HEMPLING: That's technical, not personnel?

MR. FETHERLAND: No, it's both actually.

MR. HEMPLING: So how does that problem get solved?

MR. FETHERLAND: On the CIS side?

MR. HEMPLING: Well, let's talk about both of them.

MR. FETHERLAND: That might not be a question for me. I mean, you could solve it, I mean, in a very brute force way by hiring a few more people, I suppose.

MR. HEMPLING: What type of training are we talking about?

MR. FETHERLAND: I think they'd have to know how to use a spreadsheet probably.

MR. HEMPLING: That's it?

MR. FETHERLAND: I don't know. I don't do the job, so I shouldn't speculate on that, so it might not be a good question for me to answer; but, you know, it's -- I don't think it's like building the space shuttle but pretty straightforward.

MR. HEMPLING: Thank you.

CHAIRMAN CALIBOSO: Okay. Thank you.

Cross-examine time for the parties.

Mr. Kikuta?

MR. KIKUTA: Hawaiian Electric has no questions.

MR. MCCORMICK: The Department of Defense has no questions.

MR. ITOMURA: The Consumer Advocate has no questions.

CHAIRMAN CALIBOSO: Thank you.

The next panel is the Management Audit panel, Panel 11; but, I understand some witnesses might not be available this afternoon for that panel; so, we will continue tomorrow with the Management panel, Management Audit, Panel 11; and, after that, we will do the Informational Advertising Panel, Panel 12, tomorrow as well.

So those two topics will be tomorrow; so, we will, after today, we'll break until tomorrow at 9 a.m. I think Mr. Hempling has a few comments to make.

MR. HEMPLING: Yes. Ladies and gentlemen, in terms of the purpose of the management audit panel for tomorrow, it's kinds of open; but, in order to keep us from regressing into generalities, here are a few thoughts that we have about the purposes of that panel.

Mr. Brosch, in his CAST-1, pages 12 to 14, contrasted the value of having issues, specific management audits, versus having a general how's-the-Company-doing-type-of audit; and, without necessarily saying the Commission agrees or disagrees with that, the relevance of that distinction, it's a useful distinction for the conversation tomorrow to talk about the pros and cons of no audits of audits that are very generic and/or audits that are specific to particular areas.

And so one aspect for the conversation tomorrow will be identifying particular areas that have arisen in this case as being of special interest to the Commission to the HCEI Agreement to other parties and identifying whether some more detailed probing into the Company's activities and effectiveness in those areas would be worthwhile.

I guess implicit in what I'm saying is answers like, "We're doing that already or we're doing our best" are less likely to lead to productive conversation than responses like that sounds like something we can look into further, let's discuss the most efficient way to look into.

So that would be the type of one aspect to the discussion tomorrow. It's possible that another aspect of discussion would focus on various applications -- what's the gentleman's name? -- of the type of conversations Mr. Fetherland was just bringing up, which is where are the bottlenecks in the Company, both personnel and technical, mechanical, where the bottlenecks to progress in particular areas, because this is a case about money and about cost recovery, and the more that the Commission knows about needs that can be satisfied with money, the more the Commission can induce certain behaviors.

And I'm curious are there any other aspects to the management audit conversation that folks would like to have; so, that we can all prepare.

Anybody have any thoughts?

I know nobody wants it to go away.

MR. BROSCH: Going back to my testimony just briefly, there's the whole process, administration and management set of the questions --

MR. HEMPLING: Yep.

MR. BROSCH: -- just logistically how you will do this, if you decided to do it.

MR. HEMPLING: Thank you. Be it being having some kind of audit?

MR. BROSCH: I'm sorry?

MR. HEMPLING: The "it" being some kind of audit?

MR. BROSCH: Correct.

MR. HEMPLING: Any other thoughts?

Okay. That's all I have for tomorrow's discussion.

CHAIRMAN CALIBOSO: All right.

Any questions before we recess?

Seeing none, thank you.

We will recess and reconvene tomorrow morning at 9 a.m.

(Whereupon, at 12:09 p.m., the hearing adjourned, and is to be resumed on Friday, October 30, 2009, at 9 a.m.)

CERTIFICATE

This is to certify that the attached proceedings before the Public Utilities Commission of the State of Hawaii In the Matter of the Application of Hawaiian Electric Company, Inc. For Approval of Rate Increases and Revised Rate Schedules and Rules, at 465 South King Street, Honolulu, Hawai'i, commencing, on Thursday, October 29, 2009, was held according to the record, and that this is the original, complete, and true and accurate transcript that has been compared to the reporting or recording, accomplished at the hearing, that the exhibit files have been checked for completeness and no exhibits received in evidence or in the rejected exhibit files are missing.

Tristan-Joseph, CSR No. 469, RPR No. 24906

TRISTAN-JOSEPH, CSR NO. 469, RPR NO. 24906